POWER IN NUMBERS

ROTHMANS CHARTERED ACCOUNTANTS NEWSLETTER ISSUE 25 2018

ROTHMANS
everyone counts

BBC RADIO LISTENERS PUT SOME 'TAXING' QUESTIONS TO ROTHMANS TAX PARTNER

What's worrying you in the Tax world?

In April, Rothmans' Tax Partner Julian Sims joined host Sasha Twining on BBC Radio Solent's 'Ask the Expert' slot to help listeners with their tax and accounting questions.

The questions raised covered a wide range of concerns from individuals and business owners, including:

Q I have US royalties from a pop song I was involved in; can I reclaim the withholding tax deducted in the US?

A You need to deal with the proper paperwork in the country the payment originates and may need to get a Certificate of Residence from UK HM Revenue & Customs; this ensures you have the right rate of tax deducted according to the Treaty arrangements with the UK. Any tax properly deducted can then be deducted from the UK tax you have to pay on the income.

Q I heard about needing to do quarterly Tax Returns as a self-employed person instead of annual Tax Returns; is this still the case and when?

A This is the Making Tax Digital project. This is still happening and from April 2019 will affect how VAT Registered traders with turnover above the VAT Registration threshold of £85,000 have to submit their VAT Returns. The dates for it to be extended to other taxpayers are not yet confirmed, but over the next couple of years it is likely to affect all businesses that have income (not profits) over £85,000. How quickly it is extended beyond this we wait to see.

Q I have heard about the new Inheritance Tax exemption for my own house and wonder if I will benefit from this fully as my husband died a few years ago before this was available.

A Both the Nil Rate IHT band (£325,000) and the Residence Nil Rate Band (rising to £175,000) are transferrable. If not fully used on one death, the spouse can use the balance when they die. If the amount of the band changes, then you look at the percentage of the allowance unused at the time of the first death (based on the amount available then) and apply this percentage to the amount of the band applying at the second death. The same rules apply to both the Nil Rate Band and the Residence Nil Rate Band.

Other questions included the benefits (or costs) of Voluntary VAT Registration and the tax treatment of eBay and similar trading.

Julian has often been a guest on the radio station to comment live on the budget and other tax news. He also writes for technical publications and tweets on tax matters as **@jlsTax.**

If the questions here raise concerns about your own circumstances, or you have any other tax issues you would like to discuss, please call your usual Rothmans contact or one of our Tax Team.

Julian will be appearing next on BBC Radio Solent on Thursday 16 Augustat 12 noon.

ICAEW CHARTERED ACCOUNTANTS

CIOT Chartered Tax Advisers

INHERITANCE TAX (IHT) PLANNING

IHT is charged on a person's estate when they die and on certain gifts made during their lifetime.

The rate of tax on death is 40% and 20% on lifetime chargeable transfers. The first £325,000 is not chargeable. This exemption is known as the nil rate band.

Most gifts made more than seven years before death will escape tax. Therefore, if you plan in advance, gifts can be made tax-free. The result can be a substantial tax saving.

We give guidance below on some of the main opportunities for minimising the impact of the tax.

Estate planning

Much estate planning involves making lifetime gifts of capital to use exemptions and reliefs or to benefit from a lower rate of tax on lifetime transfers.

Any plan must take account of your circumstances and aspirations. The need to ensure your financial security (and that of your family) cannot be ignored. If you propose to make gifts, the interaction of IHT with other taxes needs to be considered carefully. If you do nothing you may become exposed to a large IHT liability.

Wills

As the main IHT liability is likely to arise on death, a sensible and up-to-date Will is important.

Using the nil rate band

On death, it is vital to ensure that the nil rate band, currently £325,000, is used, assuming that it has not already been utilised over the last seven years. Transfers between spouses are exempt from IHT.

Example: John dies leaving the whole of his estate of £800,000 to his wife Jane. A few years later Jane dies, leaving her whole estate of £900,000 to her children.

On John's death there is no IHT due, as transfers between husband and wife are exempt. However, on Jane's death the nil rate band not used on John's death will be available against Jane's estate, as well as her own nil rate band. The IHT payable will be based on £250,000 (£900,000 less the current nil rate band of £325,000 x 2).

Another nil rate band

An additional nil rate band of £100,000 is introduced where a residence is passed on death to direct descendants, such as a child or a grandchild. The additional band can only be used in respect of one residential property which has, at some point, been a residence of the deceased. The amount is gradually increasing over the next few years, reaching £175,000 from the 2020/21 tax year.

Any unused nil rate band may be transferred to a surviving spouse or civil partner in a similar way as above. It will also be available when a person downsizes or ceases to own a home on or after 8 July 2015 and assets of an equivalent value, up to the value of the additional nil rate band, are passed on death to direct descendants.

There is a tapered withdrawal of the additional nil rate band for estates with a net value (after deducting any liabilities but before reliefs and exemptions) of more than £2m. This is at a withdrawal rate of £1 for every £2 over this threshold.

Whilst the new rules certainly help, further careful planning could eliminate this bill entirely.

CHECKLIST

- Do you have a Will?
- Where is it kept – do you and your family know?
- Is it up to date?
- Does your Will make full use of IHT exemptions and reliefs?
- Do you have adequate life assurance?

Tax Tip

In the two-year period following a death, the terms of a Will can be varied or disclaimed by using a Deed of Variation.

EXEMPTIONS

There are many valuable IHT exemptions. The main ones follow. Ensure you're making full use of them!

Annual exemption
£3,000 per tax year may be given by an individual without an IHT charge. An annual exemption may be carried forward to the next year but not thereafter.

Small gifts
Gifts to individuals not exceeding £250 in total per tax year per recipient are exempt.

Normal expenditure out of income
Gifts made out of income which are typical and habitual and do not result in a fall in the standard of living of the donor are exempt e.g. the payment of annual premiums on life insurance policies would usually fall within this exemption.

Family maintenance
A gift for family maintenance does not give rise to an IHT charge. This may include the transfer of property made on divorce under a court order, gifts for the education of children or maintenance of a dependent relative.

Wedding presents
Gifts in consideration of marriage are exempt up to £5,000 if made by a parent, with lower limits for other donors.

Gifts to charities
Gifts to registered charities are exempt provided that the gift becomes the property of the charity or is held for charitable purposes.

Reliefs

When business or agricultural property is transferred there is a percentage reduction in the value of the transfer. Often this provides 100% relief. In cases where full relief is available there is little incentive, from a tax point of view, to make lifetime transfers of such assets. Additionally, no CGT will be payable where the asset is included in the estate on death.

However, the reliefs may not be so generous in the future and therefore gifts now may be advisable. What will happen to any business or agricultural property included in your estate on death? Leaving it to your spouse could waste any available relief. Consider leaving such property to someone else.

Life Assurance
Life assurance arrangements can be used as a means of removing value from an estate and also as a method of funding IHT liabilities. A policy can also be arranged to cover IHT due on death. It is particularly useful in providing funds to meet an IHT liability where the assets are not easily realised, e.g. family company shares.

Please contact your Rothmans branch if you have any further questions.

Tax Tip – Use of trusts

Trusts can provide an effective means of transferring assets out of an estate whilst still allowing flexibility in the ultimate destination and/or permitting the donor to retain some control over the assets. Provided that the donor does not obtain any benefit or enjoyment from the trust, the property is removed from the estate.

Have you considered a trust to ensure any life assurance proceeds are not taxable as part of your estate on death?

LEADING ECONOMIST GIVES FREE COUNTDOWN TO BREXIT SEMINAR

A leading economist has given a free seminar called '11 months and counting' hosted by Rothmans Accountants and HSBC on what the future is likely to hold for businesses in the South as the UK prepares to formally leave the EU in March 2019.

Mark Berrisford-Smith, Head of Economics for HSBC UK Commercial Banking, told businesses that global opportunities and challenges were beginning to emerge, that the current strong exports and continuing drop in unemployment are good news for the UK, and that the fall in inflation is encouraging consumer confidence.

Cyber security expert, Gary Peace, also presented at the seminar. Formerly the Professional Standards and Anti-Corruption Network Investigator for the Metropolitan Police, Gary now runs ESID Consulting, advising businesses on how best to protect their information and prevent data breaches.

Julian Sims, Partner at Rothmans, said, "With significant uncertainty in the markets, Mark's impartial assessment of the issues that most concern businesses was both timely and valuable, while Gary gave extremely useful pointers on the policies and systems we need to put in place to protect sensitive information and minimise risk."

One of the delegates from the appreciative audience at the Ageas Bowl, Southampton, said: "It is always helpful to hear from experts and both aspects were very relevant to our business and timely reminders of what we need to do going forward."

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- Financial news summaries
- Tax strategy guides
- Budget summary reports
- Economic update information
- Event invitations

TAXATION OF CRYPTOCURRENCIES

HMRC have so far failed to take a substantive position when it comes to their stance on cryptocurrencies. Their 2014 brief is particularly vague, commenting that the tax treatment will depend on the activities and the parties involved and whether any profit or gain is chargeable or any loss is allowable, will be examined on a case-by-case basis.

The approach therefore needs to be considered as follows:

- Corporation tax: The profits or losses on exchange movements between virtual currencies are taxable in accordance with the general rules on foreign exchange and loan relationships.
- Income tax: The profits and losses of a non-incorporated business will be taxable under normal income tax rules.
- Chargeable gains and losses: If a profit or loss on a currency contract is not within trading profits or within the loan relationship rules, it will be chargeable or allowable for CGT.
- Where a business accepts payment for goods or services in the form of cryptocurrency, it is to be treated in the same way as a payment made in sterling.

Cryptocurrency held as an investment

Cryptocurrencies are treated as fungible assets for tax purposes, meaning that individual units are interchangeable and not separately identifiable from each other. Each type of cryptocurrency should therefore be 'pooled' separately, with further acquisitions or disposals of the same asset being recognised as an addition to, or a disposal from the pool. For this reason, it is important that comprehensive records are maintained.

A potentially chargeable event will occur for CGT purposes whenever a form of cryptocurrency is converted to fiat, or traded for a different form of cryptocurrency. This requires identification of the historic cost of the asset disposed or traded, in order to calculate the gain/loss arising by virtue of the proceeds received (or the value of the alternative cryptocurrency asset acquired in its place).

Trading

While many individuals have acquired cryptocurrencies on a purely speculative basis, there are other investors who have taken a much more active role in their acquisition.

These activities sometimes take the form of 'mining' operations, which involve the use of computer hardware/software to solve algorithms and generate a cryptocurrency reward. While cryptocurrency mining is always at least likely to be considered as trading for tax purposes, the scale and frequency of activities will need to be considered to establish whether or not income tax treatment should apply. CGT treatment becomes less likely when activities move away from those of an investor, and become more akin to those of a trader. The key question to consider is whether or not trading is being carried out with a view to the realisation of profit.

Disclosure

Information in relation to cryptocurrency activities should be reported on tax returns, stating what has occurred during the year, and the rationale for the treatment that has been applied. By ensuring that a sufficient level of disclosure has been applied, HMRC are rendered incapable (under usual circumstances) of revisiting the position outside of the normal enquiry window.

Conclusion

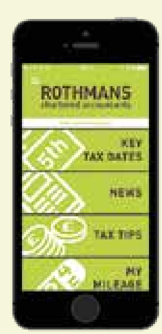
At present, the onus is very much on the taxpayer to decide if the correct treatment is being applied, and as time goes on we will no doubt see increased scrutiny of cryptocurrency transactions on the part of HMRC. Advice is key.

Our tax team has considerable experience of advising and reporting on cryptocurrencies. Contact your Rothmans branch if you require assistance.

MAKE TAX LESS TAXING

Our fantastic new Tax App is web based and replaces our existing one. It includes all the same great features:

- Key tax dates
- Interactive tax calculators
- Tax tips
- Mileage tracker
- Expenses tracker
- Access to our cloud accounting portal
- Rothmans branch details
- Plus more!



rothmansllp.com/tax-app

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MAKING TAX DIGITAL FOR VAT FROM APRIL 2019

The regulations bringing into force Making Tax Digital for VAT (MTDfV) are now law and digital VAT returns will be required from 1 April 2019.

MTDfV is the first phase of HMRC's landmark Making Tax Digital (MTD) regime, which will ultimately require taxpayers to move to a fully digital tax system. Regulations have now been issued which set out the requirements for MTDfV.

Under the new rules, businesses with a turnover above the VAT threshold (currently £85,000) must keep digital records for VAT purposes and provide their VAT return information to HMRC using MTD functional compatible software.

The new rules have effect from 1 April 2019, where a taxpayer has a 'prescribed accounting period' which begins on that date, and otherwise from the first day of a taxpayer's first prescribed accounting period beginning after 1 April 2019.

HMRC is piloting MTDfV during 2018, ahead of its introduction in April 2019. Keeping digital records and making quarterly updates will not be mandatory for taxes other than VAT before April 2020, although businesses below the VAT threshold which have voluntarily registered for VAT can opt to join the scheme.

As with electronic VAT filing at present, there will be some exemptions from MTD for VAT. However, the exemption categories are tightly drawn and unlikely to be applicable to most VAT-registered businesses.

Keeping digital records will not mean businesses are mandated to use digital invoices and receipts but the actual recording of supplies made and received must be digital.

It is likely that third party commercial software will be required. Software will not be available from HMRC. The use of spreadsheets will be allowed, but they will have to be combined with add-on software to meet HMRC's requirements.

Please contact your Rothmans branch if you have any questions.

ROTHMANS NEWS

Rothmans Sutton office complete the Tough Mudder Race!

Well done to the Rothmans Sutton team who recently tackled the full Tough Mudder near Henley on a very cold and wet day just a few weeks ago! This follows on from the success of the Chandlers Ford office who also completed the Tough Mudder earlier this year.

For further information contact one of our offices:

Chandlers Ford
T +44 (0) 23 8026 5550
E chandlers-ford@rothmansllp.com

Havant
T +44 (0) 23 9248 2683
E havant@rothmansllp.com

Petersfield
T +44 (0) 1730 266816
E petersfield@rothmansllp.com

Southampton
T +44 (0) 23 8021 1088
E southampton@rothmansllp.com

Sutton
T +44 (0) 20 8642 1048
E sutton@rothmansllp.com

Fareham
T +44 (0) 1329 280221
E fareham@rothmansllp.com

London
T +44 (0) 20 7871 9711
E london@rothmansllp.com

Salisbury
T +44 (0) 1722 413413
E salisbury@rothmansllp.com

Winchester
T +44 (0) 1962 842345
E winchester@rothmansllp.com