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CHARTERED ACCOUNTANTS

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Treasury sets aside CGT and IHT change agendas

Tax and Administration Maintenance (TAM) Day is a new phenomenon brought in by the Treasury to try and move away from the traditional all-in-one Budget. Following the first 'Tax Day' in March, the end of November saw another round of announcements.

The government set out steps to modernise and simplify the UK tax system, but of more interest is the response to the Office of Tax Simplification's (OTS) reviews into inheritance tax (IHT) and capital gains tax (CGT).

Inheritance tax

The review into IHT had made various recommendations, particularly regarding exemptions and reliefs as these can be quite complicated. Given that the nil rate band and the residence nil rate band are frozen until 2025/26, the government has decided not to proceed with any IHT changes for the time being, although the door has been left open for changes in the future.

Reduced IHT reporting requirements from 1 January 2022 have already been announced, and the latest confirmation of the status quo will be welcomed by anyone who has recently undertaken IHT planning.

Capital gains tax

Wide ranging and more radical OTS suggestions on CGT, such as aligning the rate of CGT with income tax rates and significantly reducing the amount of the annual exemption, have been put on hold for now.

The time limit for reporting and paying CGT in respect of residential property disposals has already been extended from 30 days to 60 days. Other measures that the government intends to go ahead with include:

- Integrating the different ways of reporting and paying CGT into a single customer account;
- Extending the no gain, no loss window on separation and divorce; and
- Relaxing the rollover relief conditions where land and buildings are acquired under a compulsory purchase order.

Although less definite than the above, the government will also review principal residence relief nominations and the rules for enterprise investment schemes; however, any changes are expected to be merely procedural in nature.

Details of the government's response to both of the OTS's reviews can be found from the link below:

https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/1037446/FINAL_FST_response_to_OTS.pdf

Freeports up and running

The first eight Freeport designated tax sites have now opened in Teesside, Humber and Thames. Freeports and their tax sites benefit from various incentives and tax breaks, but it remains uncertain whether they will provide the promised boost to the UK economy.

The question to what extent economic activity will simply be moved from one place to another just so businesses can benefit from the incentives and tax breaks offered by Freeports and their tax sites. These designated tax sites are relatively small areas within each Freeport. There are currently two tax sites in the Humber Freeport, and three each in Teesside and Thames.

Freeport advantages

Outside of the tax sites, the main advantage of operating within a Freeport is being able to bring in imports with simplified customs documentation and delayed payment of tariffs; particularly relevant if goods are manufactured using the imports, and then exported. The government has recently published guidance regarding when goods can be moved into, or stored in, a Freeport.

Tax incentives

Some of the tax breaks are not as beneficial as they might first appear. The tax breaks include:

- National Insurance Contributions (NICs): Relief will be available from April 2022 for new hires working at least 60% of the time at a single tax site. There is a 0% rate of employer NICs, but only on annual earnings up to £25,000.
- Capital allowances: For new plant and machinery used primarily in a tax site, a 100% deduction is given. This is only worthwhile if either the 130% super-deduction or the 100% annual investment allowance is not available.
- Structures and buildings allowance: Qualifying buildings situated within a tax site can be written off over ten years rather the usual 33⅓ year period. For example, the annual write-down for a warehouse that costs £1,200,000 will be £120,000, compared to £36,000 if the warehouse was situated elsewhere.
- Stamp duty land tax (SDLT): Full relief is given when buying land and buildings situated within a tax site. The land and buildings must be used for a qualifying commercial purpose, with residential property excluded. Continuing with the above example, if the warehouse and land cost £1,600,000, then SDLT of £69,500 will be saved.

Maps of the current Freeport locations and their designated tax sites can be found from the link below:

https://www.gov.uk/government/publications/maps-of-uk-freeports

Universal Credit eligibility expands to higher rate taxpayers

Autumn Budget reforms have created a surprising clash of benefits and income tax.

The Covid-19 pandemic was the first time many people utilised Universal Credit (UC) for the first time – between February and May 2020, the number of households claiming UC rose by 1.7 million to 4.2 million. In March 2020, the UC standard allowance was temporarily increased by the equivalent of £1,000 a year, but in October 2021, that extra payment came to an end. In its place, the Budget contained announcements of two UC improvements that are now in effect:

- All working elements were increased by £500 a year, meaning that an extra £500 of net income can be earned before any clawback of UC started; and
- The rate of clawback was reduced from 63% to 55%. As a result, if an extra £100 of net income is received and this leads to a reduction in UC payments, the loss of UC will be £55 rather than the previous £63.

So what?

The Institute for Fiscal Studies (IFS) has looked at this question and produced a surprising answer. The lower taper rate, applying to a higher starting point, now means that it is possible for higher rate taxpayers to be eligible for UC, a situation that once only applied in Scotland, where the higher rate threshold is £6,608 lower than in the rest of the UK.

One example the IFS gave is that a single earner couple with two children and monthly rent of £750 could have earnings of up to £58,900 a year in 2020/21 before losing all their UC entitlement – £9,600 more than before the Budget announcement. Not only is that ceiling well into the higher rate tax band, it is also above the £50,000 level at which the notorious High Income Child Benefit Tax Charge begins to take effect.

There are many assumptions underlying that IFS calculation, not the least of which is that the couple are not disqualified from any UC entitlement by having savings of above £16,000. In practice, the IFS calculates that 26% of all families will be entitled to UC, a proportion that rises to 84% for lone parents.

The interaction of the tapering of UC, higher rate tax and child benefit tax is complex. If you think you might be caught by that trio, make sure you understand the ramifications – you might find an extra £100 of gross earnings are worth less than £10 net.

Cryptoassets tax confusion

HMRC is sending letters to taxpayers who they believe hold cryptoassets, advising them of the potential capital gains tax (CGT) implications and linking to relevant guidance. Many taxpayers will be unaware that simply exchanging one type of token for another is a disposal for CGT purposes.

It is estimated that more than two million people in the UK hold cryptoassets. Although certain transactions will be taxed as income, most are subject to CGT.

HMRC is particularly concerned that people wrongly believe their crypto transactions to be tax free. The buying and selling of cryptoassets is not considered to be the same as gambling.

What is a disposal?

There is a CGT disposal if you:

- Sell tokens (even if the proceeds are not withdrawn from the exchange);
- Exchange one type of token for a different type of token;
- Use tokens to pay for goods or services; or
- Make a gift of your tokens to another person (unless it's to your spouse or civil partner).

There is no disposal if, for example, you simply move tokens between different wallets.

CGT treatment

For CGT purposes, tokens are treated similarly to shares, so each type of token is pooled.

If tokens are exchanged, an appropriate exchange rate must be established in order to convert the transaction to pound sterling. With more than a few transactions, things can easily become complicated. Software is available to help work out your tax bill.

Example

An investor purchases a new token using some of their Ether tokens. The new token increases in value, so the investor converts the new token back to Ether. Both transactions are disposals, so CGT will be due if the £12,300 annual exemption is exceeded. There may be no funds to pay this bill, but any further sale of Ether to realise cash will be another disposal, meaning more tax.

The guidance highlighted in HMRC's letters, which was set out three years ago, can be found from the link below:

https://www.gov.uk/guidance/check-if-you-need-to-pay-tax-when-you-sell-cryptoassets

Student loans – normal debt rules do not apply

The issue of student loans weighs heavily on students and their families, and even political parties – remember the Lib Dems? But the name itself has created misunderstanding about how they operate and the best way to manage them.

A recent article published by MoneySavingExpert.com debunks some of these common myths. Because normal debt rules don't apply, a student loan should usually be taken instead of self-funding fees, and it is generally not worth trying to pay a loan off early.

This approach to student debt is, of course, the complete opposite to the approach towards normal debt, such as borrowing to buy furniture. The misconceptions surrounding student debt are because the amount borrowed to pay fees and living costs are largely irrelevant; what is important is how much has to be paid back. Also, in regard to student loans:

- There are no debt collectors;
- There are no entries on credit files; and
- The impact on mortgage affordability checks is not the amount of debt but just the value of the repayments.

Repayment

English and Welsh students don't make any repayments until annual income exceeds £27,295, with repayment at the rate of 9% on the excess. So only those with reasonably well-paid jobs pay back the debt. After 30 years, any remaining debt is wiped out.

Anyone nearing retirement is in a very appealing position if they take out a student loan to study for a degree. Unless they will have substantial pension income, they will never have to repay.

Do not self-fund

Given the way student loans are repaid, self-funding university costs can be a bad idea. Self-funding means 100% of the costs are paid, but someone who earns less than £27,295 will effectively get their degree for free.

Even worse is where parents borrow to avoid taking out a student loan – it is much better to help out children later in life with a mortgage deposit.

Early repayment

Although it is usually a good idea to repay debt as quickly as possible, this may be a bad decision when it comes to a student loan.

Overpaying a student loan each month is pointless if that person will not fully repay the loan within 30 years. Even someone with a good income may not make full repayment given the relatively high rate of interest that can be charged.

Guidance on repaying student loans can be found from the link below:

https://www.gov.uk/repaying-your-student-loan

Should you wish to discuss this News Update in further detail please contact BGM at: communications@bgm.co.uk

Disclaimer: This information provides an overview of the issues considered and is for general information only. It is not intended to provide advice and should not be relied upon in any specific transaction.