NEWS UPDATE - 11 MAY 2021

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New tax year opportunities

Some tax planning should happen before the end of the tax year; but the start of a new tax year also presents opportunities. With many people experiencing a drastic change to their circumstances due to the pandemic, it is more important than ever to keep on top of your tax affairs.

If your income is now at a different level than pre-pandemic, you need to re-evaluate any previous tax planning. For example:

- **Child benefit** – A claim may now be worthwhile if income is below £60,000. Act soon to benefit from a full claim for 2021/22.
- **Marriage allowance** – A claim may now be possible if neither you nor your spouse/civil partner is a higher rate taxpayer. You can claim for 2021/22 or backdate a claim for three years.
- **Working from home** – Employees can claim a £26 per month deduction if required to work from home. Claim for 2021/22 or backdate a claim to 2020/21. Although the tax year 2020/21 has ended, some carry backs are possible. Gift Aid donations and SEIS/EIS investments made during the current tax year can all be carried back.

Investments

Savings rates hit record lows last year, and many companies cut their dividend payments. You may also have used up savings to replace lost income. Therefore, make sure you and your partner are making the best use of the savings and dividend allowances, and decide whether any ISA saving is still the best option.

You might also have had to realise investments during 2020/21. If you are now facing a CGT bill, it might be possible to crystallise some capital losses to offset against the gains. This is done by making a negligible value claim for assets that have become virtually worthless.

Tax payments

Some simple procedural checks can make a difference:

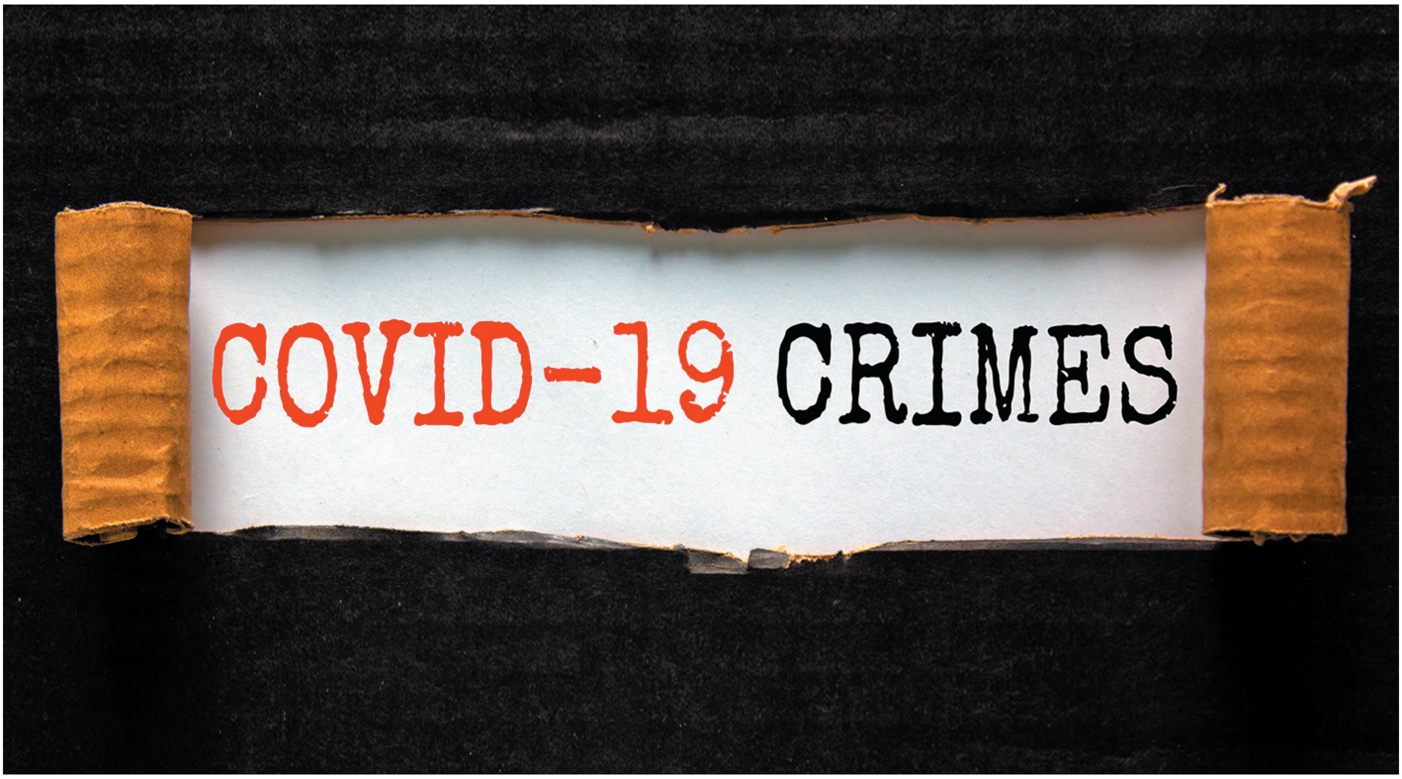
- **Employees** – Check your PAYE codes for 2021/22. Your allowance might be too low if deductions have increased (such as professional subscriptions) or taxable investment income has fallen.
- **Self-employed** – If profits have fallen, you might be able to reduce payments on account. This will reduce the payment coming up in July, as well as obtain a refund from this January's payment.

A good starting point when reviewing your tax affairs is HMRC's income tax webpage. This contains many useful links and can be found from the link below:

https://www.gov.uk/topic/personal-tax/income-tax

Excess furlough money repaid

The government reports that 3,000 businesses have voluntarily repaid over £760 million of furlough grants received under the Coronavirus Job Retention Scheme (CJRS) where the reality of the impact of the pandemic was not as bad as first anticipated. For those less forthcoming, the government is targeting fraudulent claims.



The March Budget unveiled a new taskforce to find those who have exploited the various Covid-19 support schemes, including the CJRS. With over £100 million invested, this represents one of the largest responses to a fraud risk by HMRC. The taskforce will have around 1,000 investigators.

Fraudulent activity

There has been no specific requirement for a business to demonstrate they have been financially impacted by the pandemic to claim under the CJRS. HMRC guidance simply says employees can be furloughed where a business cannot maintain its workforce because operations have been affected by Covid-19.

The new taskforce is therefore likely to focus on businesses who have:

- furloughed more people than actually employed, or used inflated wage figures;
- claimed for workers who continued doing their jobs;
- not passed the grants on as wages to furloughed employees; or
- abused the flexible working arrangements.

Given that each CJRS claim provides the opportunity to repay any amounts previously overclaimed, HMRC is likely to consider incorrect claims as deliberate and concealed. This means a penalty of up to 100% of the grant.

Repaying furlough grants

Even if CJRS rules have been complied with, voluntarily repaying a grant where it is not needed creates the right impression for your business.

Regardless of whether repayment is voluntary or because of an overclaim, repayment is normally done with a correction on the next claim. If an overclaim is corrected, no penalty is incurred provided HMRC is notified within 90 days of when the grant was received. You can find out about paying back CJRS grants from the link below:

https://www.gov.uk/guidance/pay-coronavirus-job-retention-scheme-grants-back

Retiring in 2021… or beyond

A recent survey of people who have retired or plan to retire in 2021 provides interesting insights, whatever your intended retirement year.

The average age of people planning to retire in 2021 is 60, according to a recently published survey by investment manager, Standard Life Aberdeen. That is six years before current state pension age, which will rise from 66 to 67 between 2026 and 2028. Those 2021 retirees will, on average, live for another 25 years if they are men, and 28 if they are women, according to the Office for National Statistics (ONS). A quarter will survive to age 92 and 94, respectively, implying over a third of their life is spent in retirement.

The Class of 2021 report (https://prd-cdn.aberdeenstandard.net/-/media/standardlife/documents/class-of-2021-report.ashx) found that 37% of respondents had brought forward their retirement date because of the Covid-19 pandemic – a reminder of the importance of building flexibility into your retirement planning. Perhaps the acceleration of plans also explains why only about two in five felt very confident they were financially ready to finish working this year. The lack of financial confidence also showed up in other responses:

- Nearly half intended to cut their spending in an effort to support their retirement.
- Just over a quarter said they would work part-time for the same reason.
- One in five planned to sell their property or downsize to meet their retirement costs.

Those costs may have been underestimated, as the average planned retiree's household spending was £21,000 a year, almost a third less than the average 2020 household income, according to the ONS.

The most concerning statistic was not one directly supplied by the retirees, but the result of an assessment by the survey's sponsor, the Pensions and Lifetime Savings Association. They calculated that even using the £21,000 annual spending target and allowing for the eventual arrival of the state pension, two thirds of the 2021 retirees were at risk of running out of money. The association's estimate was that a savings pot of £390,000 was needed to cover 30 years of retirement expenditure.

All food for thought, whatever your planned year of retirement…

Family money increases wealth divide through inheritance

Research by the Institute for Fiscal Studies provides a stark warning of how important inheritances are going to be for younger generations in terms of both lifetime income and wealth.

Wealth passed down from one generation to the next is fast becoming the most important determinant of how well-off a person will become, with those born in the 1980s projected to inherit almost twice as much as those born in the 1960s. The average inheritance for those born in the 1980s will be worth 16% of their lifetime (non-inheritance) income. One in ten can expect to receive more than £500,000, and it will come as no surprise that graduates generally have the wealthier parents.

Security comes from inheriting property

With a potential £1 million exemption from IHT, your inheritance may well be tax-free if you inherit the family home. Depending on your circumstances, you may then be able to live mortgage-free or enjoy rental income.

Be warned, however, that the inequalities created by inheritances could see a wealth tax imposed at some point.

Struggle for those without family funds

Without parental help, it is becoming increasingly difficult to get a first step on the property ladder. The temporary stamp duty cut should have helped, but any saving has been wiped out by a surge in property prices. Despite this, there is better news:

- A new government guarantee scheme has been launched, alongside the return of 95% mortgages. Mortgage rates are of course lower for those who can find a 10% deposit.
- The latest version of the help to buy equity loan scheme means you can borrow up to 20% (40% in London) towards the cost of a newly built home, so a smaller mortgage is then required.
- First-time buyers will again have a stamp duty advantage later in 2021 once the temporary reliefs come to an end.

Guidance on help to buy, including the equity loan scheme, is available on the government website below:

https://www.helptobuy.gov.uk/

HMRC's April interest rate cut

HMRC's official rate of interest has been cut from 2.25% to 2% from 6 April 2021. This will affect any directors or employees who have a beneficial loan from their employer, as well as directors who have an overdrawn current account with their company. The official rate is also used in some other tax calculations.

Beneficial loans

Assuming no change to the official rate throughout 2021/22, the cut will reduce the tax payable by a higher rate taxpayer with an employer-provided interest-free loan, of, say, £50,000 from £450 to £400. Alternatively, the director or employee will need to pay interest of £1,000 rather than £1,125 for 2021/22 to avoid the tax charge.

Where an employer-provided loan is cheap rather than interest-free, the benefit charge is based on the difference between the official rate and the amount of interest actually paid. There will be no benefit if:

- The balance of beneficial loans provided to a director or employee throughout 2021/22 does not exceed £10,000.
- The loan is for a qualifying purpose, such as buying shares in a close company.

Directors should be particularly careful to not let an overdrawn current account go just over £10,000 at any point during the tax year.

Other uses

The official rate is also used in regard to employer-provided living accommodation and pre-owned assets tax (POAT).

- **Living accommodation** – There is an additional benefit charge on the excess of the cost of the accommodation over £75,000. For example, if living accommodation cost £250,000, then the additional benefit charge for 2021/22 will be (£250,000 – £75,000) at 2% = £3,500.
- **POAT** – There is an income tax charge on certain inheritance tax planning arrangements. Where chattels and intangible assets are concerned, the amount of deemed income subject to tax is the value of the asset multiplied by the official rate.

More detail on beneficial loans from an employer's perspective can be found from the link below:

https://www.gov.uk/expenses-and-benefits-loans-provided-to-employees

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