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NEWS

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Inheritance Tax

Make Sure You Don't Get Caught Out

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Inheritance Tax

Make Sure You Don’t Get Caught Out

Part 1

Inheritance Tax (IHT), once only the bane of the wealthiest, is now a charge that affects a wide cross-section of society. Complex rules and criteria around reliefs and exemptions can mean that even fairly modest estates, if they contain the ‘wrong’ type of asset, could be subject to IHT.

The current rate of IHT is 40%. However, there are rumours of future changes following recently published government requested reviews. In addition, there is growing pressure to increase tax revenues due to the unprecedented spending during the Covid-19 pandemic. This all adds up to a great deal of uncertainty for the future of how wealth will be taxed.

In this, the first of two articles, we discuss the basics of IHT, how it is charged and the main reliefs and exemptions available. In a follow-up article, to be published in our next newsletter, we will examine how we approach reviewing your IHT position and how some planning can reduce the impact of IHT on your loved ones.

What is Inheritance Tax?

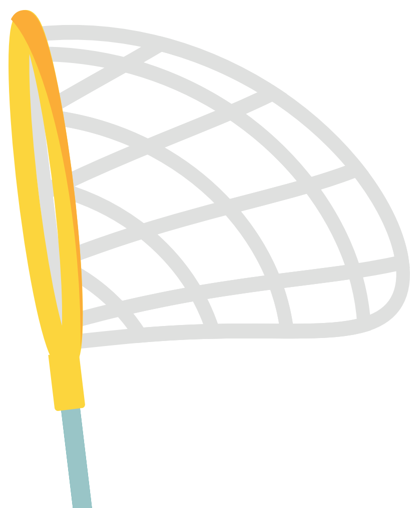
IHT is a tax applied to your estate on death. Currently it is payable at 40%. It also applies to some lifetime transfers, eg. transfers into a discretionary trust, and gifts made in the seven-year period to your death. The tax can apply to all types of assets owned at death such as land and property, investments, cash, jewellery, art and vehicles.

For many individuals, the various exemptions and reliefs available will result in no IHT reporting or tax payable. However, with rising house prices and general inflation affecting all types of assets, many more people should consider their own position through the prism of IHT.

Exemptions and Reliefs

Spousal Exemption

This is the most commonly used exemption and automatically applies on death. Any part of an estate left to a spouse or civil partner will be exempt from IHT. So when considering a couple’s wealth, any IHT liability usually only occurs when the second person dies. This leaves any unused standard nil rate and residence nil rate bands available to be used on the second death.



Nil Rate Band (NRB)

Everyone currently has a NRB of £325,000. This means that there is no IHT payable on the first £325,000 chargeable assets of your estate. Where the NRB is not used, for example when all assets have been left to a spouse, the NRB can be transferred and used on the death of the surviving spouse. This means a couple's IHT cumulative NRB allowance is effectively £650,000.

Residence Nil Rate Band (RNRB)

This is a relatively new exemption introduced in April 2017. It acts as a top-up to the NRB and applies where the deceased has an interest in a qualifying property and this is passed on death to a direct descendent eg. child, stepchild or grandchild. The RNRB is currently £175,000 but is restricted for those with an estate value (before any reliefs) in excess of £2 million and is completely lost for estates valued at £2.35 million or above. Like the NRB, any unused RNRB can be used by the surviving spouse on their death. However, the level at which the exemption is restricted is not doubled. This could mean that couples who have left all assets to their spouse may find that the surviving spouse is left with an estate valued in excess in £2 million and thereby risk restricting or completely losing RNRB, unless some IHT planning is considered.

Used jointly, the NRB and RNRB results in couples with a qualifying residential property with a value of at least £350,000 being able to pass on up to £1 million of their estate (including the property) free of IHT.

Gifting to Charity

Any gifts left to charity will not be subject to IHT. In addition, you can reduce the rate of IHT payable from 40% to 36% by leaving at least 10% of your net estate to charity.

Agricultural and Business Reliefs (AR and BR)

These are extremely valuable reliefs available to those with agricultural or business assets. AR and BR provide either 50% or 100% relief on the agricultural value of qualifying agricultural assets, in the case of AR, and the market value of qualifying business assets, in the case of BR. These are extremely complex reliefs so we advise you take appropriate advice from a qualified professional if you believe they are relevant to your circumstances.

The need for IHT Planning

As professional advisers we see IHT planning becoming increasingly important to our clients. As the value in investments and property has increased, particularly over the last decade, more of our clients are finding that their estates are likely to be liable to IHT.

Although the morality around paying tax on wealth is a hotly contested topic, in general most people want to pass on as much of their wealth as possible to loved ones. It is important to look at your IHT position from not just a tax perspective; you should take into account other practical considerations such as long-term care and your income needs in retirement.

At GWA, when carrying out an IHT review the first thing we do is talk to our clients about the future and listen to their hopes and wishes for themselves and their loved ones. It can be difficult discussing your own mortality. However, starting the conversation as early as possible can allay worry and fear for you and your family.

In part two of this article, we will discuss our approach to IHT planning and some of the measures which can reduce your overall liability.

The information in this article is general and is not tax advice. If you would like advice for your own personal circumstances, please get in touch with us.

Business Bounce Back Loan Update

The Bounce Back Loan (BBL) was a government - backed programme introduced in May 2020 to help struggling businesses deal with the impact of the COVID-19 pandemic. It allowed businesses to borrow between £2,000 and £50,000 (up to 25% of turnover). With a full government guarantee against the outstanding balance, the take-up was high, over £46 billion was borrowed in total. The scheme closed to new applications on 31 March 2021.

The loans were issued for a period of 6 years with the government covering the the lender's interest payments for the first 12 months, from which point the borrower begins to repay the loan and the interest. That means that from May of this year the first borrowers will have become liable for repayments. Of course when the scheme was conceived, it wasn't expected that some businesses would still not be trading due to COVID-restrictions a year down the line. As a result, 'Pay as You Grow' measures were introduced in February. These include options to extend the repayment period, request a repayment holiday and make interest-only payments.

If you took out a BBL for your business then you may be asking yourself if now is the time to pay it back. Well the answer is not as simple as 'yes' or 'no' and depends on your unique circumstances. If you feel that you are not quite over the hump then it might be best to hang onto the loan for a while and take advantage of some of the 'Pay as You Grow' flexibilities. However, you may have taken it out as a precautionary measure and things have gone better than feared and you are now able to repay it.

Early repayment can be made at any stage without incurring penalties. Although in principle a BBL should not affect your business's ability to obtain finance, some of our clients are indicating that it is having an impact on their creditworthiness with certain lenders.

Professional advice is a prudent move. At GWA we can look at your cash flow, what is coming in and going out of your business, and make reliable suggestions to inform any decision about repayment of your BBL. For more information, please contact the partner in charge of your affairs.

VAT Rules for Charging Electric Vehicles

In a previous newsletter we looked into the tax incentives for businesses providing fully electric or plug-in hybrid company cars.

These include hugely reduced Benefit-in-Kind (BIK) rates, enhanced capital allowances for cars with zero or low emission rates and the Workplace Charging Scheme (WCS) whereby the government provides financial support towards the up-front costs of the purchase and installation of Electric Vehicle (EV) charge points. The full article 'Company Cars - is now the Time to Switch to Electric?' is available on our **website**.

However, a further issue that businesses and employees should be aware of when purchasing EVs is VAT liability.

Cars, whether electric or not, can be eligible for a VAT reclaim if they meet certain conditions. You can reclaim the input VAT on a new car if you use it exclusively for business. If it is used personally, which includes journeys between home and the workplace, you cannot reclaim the VAT. If a company car is leased, hired or purchased through HP or PCP arrangements then 50% of the VAT can be recovered. All maintenance costs and repairs are eligible for VAT reclaims, as is the cost of running the car itself.

Recently HMRC has clarified its position on the VAT treatment of charging EVs in public places. It makes clear that VAT is always charged at standard rate (20%) at charging points in public places, including charging points at employers' workplaces.

VAT can however be recovered for business use, but detailed mileage records must be kept to show how much vehicle charge is used for business use or private use.

For employees charging an EV at home, HMRC says the VAT cannot be recovered because the supply is made to the employee and not to the business. So businesses cannot reclaim VAT on electricity used by an employee to recharge a vehicle at home, even when the charging is for business journeys.

In summary, there are still financial as well as environmental incentives for your business and your employees to make the switch to EVs but you should bear in mind the added complexities around VAT. Provided detailed and accurate records of business mileage are kept, VAT liability and recovery shouldn't be a problem. However, it's always worth checking with us to make sure you're fully aware of what can be reclaimed, and what can't.

Putting Your Money Where Your Morals Are

A look at Ethical Investing

No one can accuse the financial services industry of being shy when it comes to using jargon or acronyms, especially in the sphere of investing ethically. You may have come across such terms as ESG stocks, SRI and Impact Investment. They are all concerned with the same idea: creating positive change by thoughtfully and intentionally investing your money and they come under the umbrella term of Ethical Investment.

Ethical Investment can be defined as the practice of looking beyond the usual measures of risk and return and selecting investments on ethical or moral principles. Of course ethical values are largely subjective – what is of a moral concern to you may not be to someone else. That being said, there are certain issues which affect all of society which makes it possible to group ethical investments under common categories of focus, be that environmental concerns, animal rights, the arms industry, tobacco or gambling.

There are basically two techniques to selecting ethical portfolios. The first one is known as 'negative screening'. This, as the name suggests, involves screening a company's practices and products or services before deciding to invest in it. This approach seeks to avoid harm. The second technique is 'positive investing.' Here, an investor seeks out companies whose practices they approve of.

Although Ethical Investment has gained massive traction in recent years the roots go all the way back to religious groups of the 18th century, particularly the Quakers and the Methodists. In the USA in the 1970s, the world's first retail ethical investment fund was created by investors who didn't want to support companies that were profiteering from the Vietnam War - namely companies manufacturing Napalm. The UK got its first ethical fund in 1984 - the Friends' Provident Stewardship Fund (FPSF) which excluded tobacco, arms, alcohol and oppressive regimes. Ethical Investment tends to reflect the political climate and social concerns of the time. Currently investing continues to primarily focus on impacts on the environment and society.

There are a number of misconceptions and concerns which persist around Ethical Investment:

1: It underperforms

This claim is tenuous. In fact, while no investment is guaranteed, there has been a recent trend of outperformance from ethically conscious companies.

2: It is more risky

This is simply not the case and there is some indication that ethical funds may offer lower levels of market risk than traditional funds.

3: It is more pricey

While we may expect to pay more for organic vegetables or Fairtrade goods, it is not the same when it comes to investing: the average retail ethical investment fund is priced the same or even more competitively than a comparable traditional active strategy.

4: It is too niche

Although Ethical Investing is still relatively small, it is growing rapidly. Now 20% of professionally managed assets in the USA have a Sustainable & Responsible Investment (SRI) mandate and this increases to 40% when we look at Europe. The UK is the second largest SRI investor in Europe.

5: It doesn't make any difference

There are lots of examples of shareholder advocacy being used positively, ie shareholders using their voting rights to bring about corporate change.

6: It is too complicated

There is some substance to this concern. It takes considerable effort to look behind the scenes of ethical investments to make sure they align with your aims which can prove tricky for the DIY investor. We recommend you take professional advice.

At GWA Wealth Management, in conjunction with Parmenion, we offer 40 ethical, multi-asset portfolios. These are subdivided into four ethical profiles graded A to D according to different ethical aims and preferences and there are 10 risk grades within each group. That means that we have a diverse range of portfolios and something that suits nearly everyone's ethical preference and attitude to risk. They are also available in a variety of tax wrappers in order to fit seamlessly into your financial plan. These portfolios have demonstrably performed well since their inception in March 2012.

In conclusion, Ethical Investing is not niche: it is mainstream, it is expanding at an exponential rate and it is here to stay. Ignore the myths: there is little indication of underperformance or greater financial risk and shareholder advocacy can make a difference. What this means for the investor is that it is now possible to achieve returns without compromising your ethical principles. If this is something you are interested in then GWA can help you, please don't hesitate to get in touch at **wealth@gwayre.co.uk**

Please be aware that your capital will be at risk when you invest, and that you may get back less than you invested. This article does not constitute financial advice and before acting upon it, the reader should always take the appropriate financial advice.

Increase in NICs and Dividend Tax Rate Announced

The Prime Minister has released details of an overhaul of the financing of the adult social care system. NICS and dividend tax increases are expected to raise £12billion per year which will be ringfenced to pay for the impact of the COVID-19 pandemic on the NHS and will address the long-standing funding gap for health and social care.

In his recent announcement, Boris Johnson confirmed that National Insurance Contributions (NICs) and dividend tax rates will increase by 1.25% from April 2022 for all businesses and tax payers, including the self-employed, across the UK.

From April 2023, the increases will be legislated separately as a 'health and social care levy' and NIC rates will return to previous levels. Also from April 2023 individuals who continue to work after state pension age and who are currently exempt from paying NICs will also be subject to the levy

There will also be changes to the amount of savings people can retain when facing a move into care costs and a cap on total cost liability for anyone paying for care home accommodation and care.

The move is controversial because it is seen by some to break the Conservative's manifesto pledge to not raise taxes. It will also place an inevitable burden on businesses in terms of cost and administration.

Changes to NICs

Legislation will be passed to ensure that the new 1.25% levy eventually becomes an independent tax, discrete from NICs. However, it is estimated that it will take time for HMRC to update its systems to accommodate and identify the new separate charge, as opposed to an increase in NICs on payslips.

As such, from April 2022 there will be a temporary 1.25% increase in NICs paid by workers, as well as a 1.25% increase in NIC paid by employers. From 2023, the new health and social care levy element will be separated out and the exact amount employees pay will be visible on their pay slips. NIC rates will then return to 2021/22 levels. As already mentioned, this new levy will be paid by all working adults - including those over the state pension age.

How much will this mean to employees?

- anyone earning less than £9,680 pa will not have to pay the levy
- someone earning £24,000 pa, which is less than the average wage, would pay an additional £260 a year
- a typical higher rate taxpayer earning £67,100 will pay an extra £715.

Businesses will need to budget for the additional employer's NICs from April 2022 onwards.

Changes to Dividend Tax Rates

The announcement also outlined a 1.25% increase in dividend tax rates from 1 April 2022, taking rates to:

- 8.75% for basic rate taxpayers
- 33.75% for higher rate taxpayers
- 39.35% for additional rate taxpayers.

The £2,000 dividend allowance will remain. The increase in dividend tax rates will be legislated for in the next Finance Bill.

How Individuals Pay for Social Care

The announcement included wide-ranging changes to the individual financing of residential and social care in the UK. The new plans mean that individuals with savings of less than £20,000 will not make any contribution to care cost (This figure is currently £14,000). Those with assets between £20,000 and £100,000 will be eligible for means-tested support. This new limit of £100,000 is more than four times the current limit. If a person's total assets are over £100,000, full fees must be paid.

However, under the new plans, the amount individuals will pay towards personal care throughout their life will be capped at £86,000. This cap will be for actual care, rather than accommodation. Currently, anyone in England with assets over £23,250 must pay for their care in full.

While a cap on social care costs is to be welcomed, it will generally be of greater benefit to those who live in areas of the country with the highest property values.

The tax-raising measures and their impacts are further outlined in the government's plan for health and social care which is available on the gov.uk website. It is expected that a white paper on integrated health and social care will be released later this year setting out more details.

As with any updates to the tax system, these changes will create a significant increase in administration for businesses. Payrolls will need to be amended to reflect increased NIC rates from April 2022 and then a completely new levy will come into effect from April 2023. As always, our teams will be here to support your individual and business needs.

Moving On Up

At GWA we are committed to employing the best people at all levels in order to provide a market-leading service to our clients. As usual, our new starters are introduced in the staff news section. However, since our last newslette, we have had a number of significant promotions within our existing team that we think are worth a special mention.

Xin Zhang was promoted to **Associate** on 1 September. Xin qualified as a Chartered Accountant in 2018. He joined GWA in the same year and has worked with clients from both sides of the border across a range of industries, utilising his experience in tax and general practice. Commenting on his appointment Xin said, "I am delighted to have been given the opportunity to progress my career within GWA. As Associate, I look forward to extending the relationships I have already started to build with our clients in Scotland, Northumberland and beyond."

Dawn Barratt, who joined GWA in 2019 as an Administration Assistant, has been promoted to **Head of the Administration Department**. In her new role, Dawn will oversee GWA and Sandgate Services' admin teams that are based at our Haddington and Berwick offices. Dawn's responsibilities will include staff training and monitoring the teams' workload and function.

David Renton has taken on the role of **Head of the Audit Department**. David has been with GWA for over 21 years; he qualified as a Chartered Certified Accountant in 2009 and was made an Associate in 2018. Throughout this time David has worked with clients across many different industries and has been heavily involved with Corporate Services and Audit Work. In his new position, David will manage our Audit Team and its workload, ensure that we keep up-to-date with ever changing regulations and that GWA continues to provide a first class Audit service.

With David taking on the lead position in our Audit Department, **Danielle Campbell** has replaced him as **Deputy Head of Accounts**. Danielle first joined our Corporate Accounts department in 2015 and successfully applied to our CA Training Programme the following year; she qualified as a Chartered Accountant in 2019. Danielle is currently on maternity leave following the birth of her second child but is looking forwarded to taking up her new role when she returns to work next year.

Partner Robbie Dalgleish comments; *"Our team is GWA's most important asset and is what has made us successful for over 100 years. We like to give everyone the chance to develop and progress and I congratulate Xin, Dawn, Danielle and David on their promotions. I am sure they will excel in their new roles and help us to continue to deliver Quality Advice and Quality Service to all of our clients."*

Community News

We are glad to say that as things slowly open up, we have had some more opportunities to contribute to events and causes that mean something to our staff and clients.

Tweedmouth Rangers FC was nominated by **Kathryn Heath** for a donation though our Staff Community Support Initiative. We were pleased to support the **Berwick Literary Festival**, the **Berwick Food Festival**, **Berwick Rugby Club** and **Haddington Pipe Band**.

During the COVID-19 lockdowns some of our 'craftier' members of staff put their time and skill to good use by knitting blanket squares. This project was co-ordinated by staff member **Sarah Weatherburn** who, along with her mother Jean Bowie, sewed the squares into three colourful blankets. These blankets were then donated to local care homes.

Staff still use TEAMS to keep in touch while working from home. Cathryn Ritchie shared this lovely photo of a meadow near Lowick.

Staff News

As things move to a new "normal", we look forward to welcoming our staff and clients safely back to our offices and a pleasant challenge is finding space for our expanded workforce. Since our last newsletter we are absolutely delighted to welcome the following people to the GWA team: **Louise Hogg** and **Leesa Watson** have started in our VAT & Bookkeeping team, **Chris Semple**, **Hannah Bagley**, **Joshua Murdock**, **Taylor Aldred** and **Isabella Seale** have all joined our Graduate CA Training scheme, **Jay Baverstock** has started his apprenticeship training in our IT department, **Emily Patterson**, **Stephanie Rutherford** and **Jamie McIntosh** have each taken up trainee positions within our Accounts and Tax departments and **Marion McIntosh** has joined our Admin team. We have no doubts that each of our new starters will soon feel part of the family and will be instrumental in GWA continuing to provide the highest levels of service to its clients.

Some of our existing staff have celebrated significant work anniversaries. **Lynn Ritchie** reached 30 years of service in May while **Vicky Reid**, **Carol Lindsay** and **Donna Vincent** have each been with us for 10 years. Most recently, **Derek Simpson** from our Tax Department clocked up an amazing 40 years. We sincerely thank each of them for their loyalty and dedication.

Finally, we send huge congratulations to our Head of IT, **Neil Forrest**, who recently took part in the National 3 Peaks Challenge. Competitors aim to climb each of the highest mountains in Scotland (Ben Nevis), England (Scafell Pike) and Wales (Snowdon) all within 24 hours, including travel time. Not only was it an incredible personal achievement, Neil also raised £1450 in sponsorship for Cancer Research.

Photo of Yr Wyddfa (Snowdon) by Neil Forrest

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