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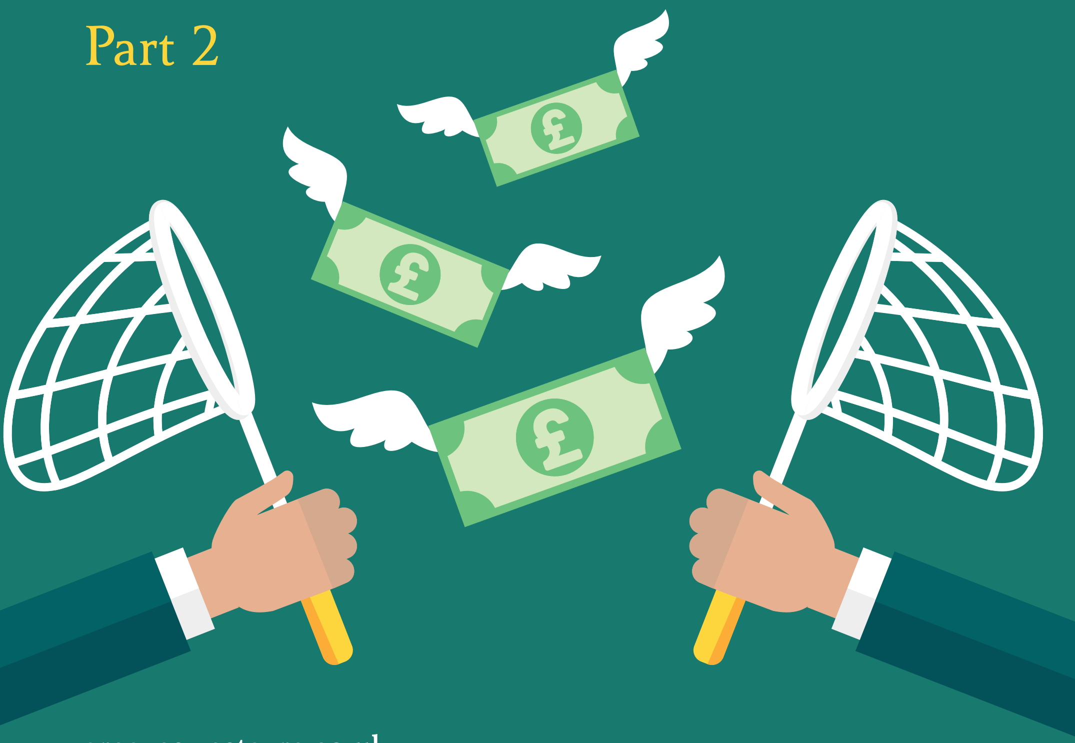
WINTER 2021/22

Inheritance Tax

Make Sure You Don’t Get Caught Out

Part 2



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Inheritance Tax

Make Sure You Don't Get Caught Out

Part 2

This is the second of two articles on Inheritance Tax (IHT). The first one, published in our Autumn Newsletter and available on the news page of our website, discussed how IHT is charged and the main reliefs available. In this follow-up article, we explain our approach to reviewing your IHT position. We will also consider the planning measures that can help you to reduce your IHT liability and pass your estate on to your loved ones as you intend.

How wealth is taxed remains a contentious issue; although no significant changes were announced by the Chancellor in his Autumn budget, there is still uncertainty over how IHT will be taxed in the future. Since the tax environment and personal circumstances can change quickly, our recommendation is that everyone considers their IHT position and reviews it on a regular basis.

1: Quantifying the potential liability

When reviewing a client's IHT position, the first thing we do at GWA is to understand what their hopes and plans are for the near and more distant future. This is extremely important, as what might make the most sense from a tax perspective may not be right for you and your individual circumstances.

We then make sure we have information on all the assets owned by our client and on any gifts or chargeable transfers made in the last seven years. Along with details of assets, we will review other documents such as Power of Attorney, Partnership Agreements and the latest Will.

All of this information allows us to evaluate whether any IHT relief is available on existing assets and to calculate the IHT liability on the estate, as things stand.

2: Consider how to reduce liability

Once we have identified the IHT liability, we will look at any action you could take that may reduce it. This might include:

IHT Reliefs: We will review your assets to see if we can suggest any changes to capture more of the valuable reliefs available to you.

Gifting: Gifting assets and/or surplus income can reduce both potential IHT, as calculated now, and the growth in IHT liability due to any natural increase in the market value of assets.

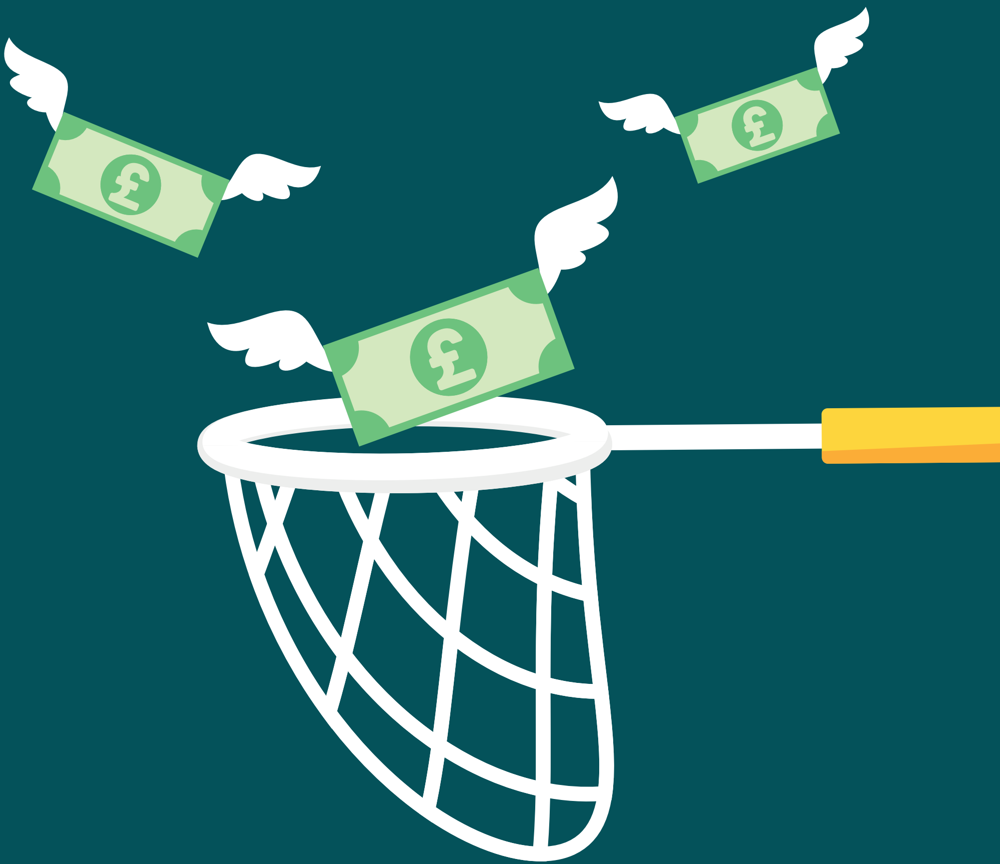
Gifting assets, either directly or via a trust, can reduce the final IHT liability providing the giver survives for seven years afterwards. Gifting assets which are likely to increase in value, not only reduces the estimated IHT liability calculated on the asset's value now, but also shelters any increase in the asset value from an estate.

Gifts out of income can also be exempt from IHT. It is important however to keep a record of these gifts to show that they are regular, made out of excess income and the level of gifting does not reduce the standard of living of the giver.

There are other opportunities for giving, such as for marriage, which can be IHT exempt depending on the size of the gift and your connection to the newlyweds.

Gifting assets may trigger a Capital Gains Tax (CGT) liability and this should be considered as part of the planning exercise.

Pensions and IHT Friendly Investments: In general, saving into a pension is a great way to plan for retirement. In addition, unused pension savings can be passed on in your estate with no IHT liability.



Certain investments can also, after a period of time, be exempt from IHT. It is possible to reduce IHT liability by selling or transferring other assets or investments and re-investing the funds into more IHT-friendly investments. Other things, such as CGT and any dependence on the income generated by the asset, should be taken into account.

Life Cover

Of course, it will not always be possible to remove IHT completely. In this case, you could think about who will be responsible for paying the IHT due after your death. Life assurance policies are available which pay out cash on death. This cash can be used to settle IHT, meaning your loved ones will not have to sell any assets.

At GWA, our tax advisers work closely with our Wealth Management team who can look at cover as well as your overall investment strategy.

Summary

In summary, asking us to review your estate and estimate your current IHT liability is a positive first step towards understanding your assets and how they will be passed on to loved ones. The review is a great way to start a discussion with family about plans for the future and, hopefully, provide peace of mind for everyone. We can look at the avenues available to you to reduce your liability including simple planning tools, gifting, pensions, IHT-friendly investments, and life assurance policies. **Please do not hesitate to get in touch if you would like further information.**

Year End Tax Planning 2022

Tuesday 5 April 2022, which marks the end of the tax year, will soon be here. That means now is a good time to think about whether some timely tax planning could benefit you. As we emerge from hopefully the worst of the Covid-19 pandemic, the Government has been saddled with the problem of how to deal with a massive spending deficit left in the wake. So far Mr Sunak has employed mainly stealth tactics: personal allowances, basic rate bands and NIC thresholds remain the same as they were last year, and look like doing so for some time. After that there is no guarantee of how wealth will be taxed, so it is wise to take advantage of what is available to you while you can.

Below is a list of the main allowances and reliefs that we recommend you consider:

ISAs

Returns from an ISA are tax free and in the current tax year individuals can invest up to £20,000 in either a cash or a stocks & shares ISA, or a mixture of both. As part of your main allowance, a Lifetime ISA (LISA) is available to those between 18 and 40 saving up to £4,000 towards a home or retirement; these attract a 25% government addition. You can invest up to £9,000 in a Junior ISA for anyone under 18. Remember ISA allowances cannot be carried forward past 5 April, so use it or lose it!

Pensions

Most people get Income Tax relief on pensions contributions up to the annual allowance. For 2021/22 you can generally contribute £40,000 gross or 100% of your earnings (whichever is lower). As well as receiving a 20% top-up from the Government on any net personal contributions you make, you may also be able to reduce the amount of income tax you pay by extending your basic rate band and/or reinstating your personal allowance. You may even be able to claw back Child Benefit payments. Business owners can extract profits as a pension contribution, saving on tax and National Insurance liabilities. Any unused allowances from the past three years can be carried forward.

Use Your Annual Tax Allowances

For 2021/22 the Capital Gains Tax (CGT) allowance is £12,300 per person which cannot be carried forward - remember that assets may be transferred between married or civil partners without a gain arising.

Marriage Allowance permits a basic rate taxpayer to transfer part of their spouse's personal allowance to himself or herself, provided the spouse earns less than £12,570.

If you run your own business through a limited company, the first £2,000 of dividends that you draw is tax free, irrespective of other income.

The personal savings allowance is £1,000 of tax-free interest for basic rate taxpayers, and £500 for higher rate taxpayers. There is no allowance for those paying tax at 45%.

Two further £1,000 tax-free allowances are available; one for property and the other for miscellaneous trading income.

Inheritance Tax (IHT)

An individual can make gifts of up to £3,000 (this exemption can be carried over for one tax year only), multiple smaller gifts of £250 or regular gifts out of their income each tax year – these are all exempt from IHT.

You can make one off gifts on marriage or civil partnership; the amount exempt depends on your relationship to the couple. Larger gifts over and above these exemptions can also be made, but the giver needs to live for seven years before they are fully free of IHT.

Gift Aid Donations

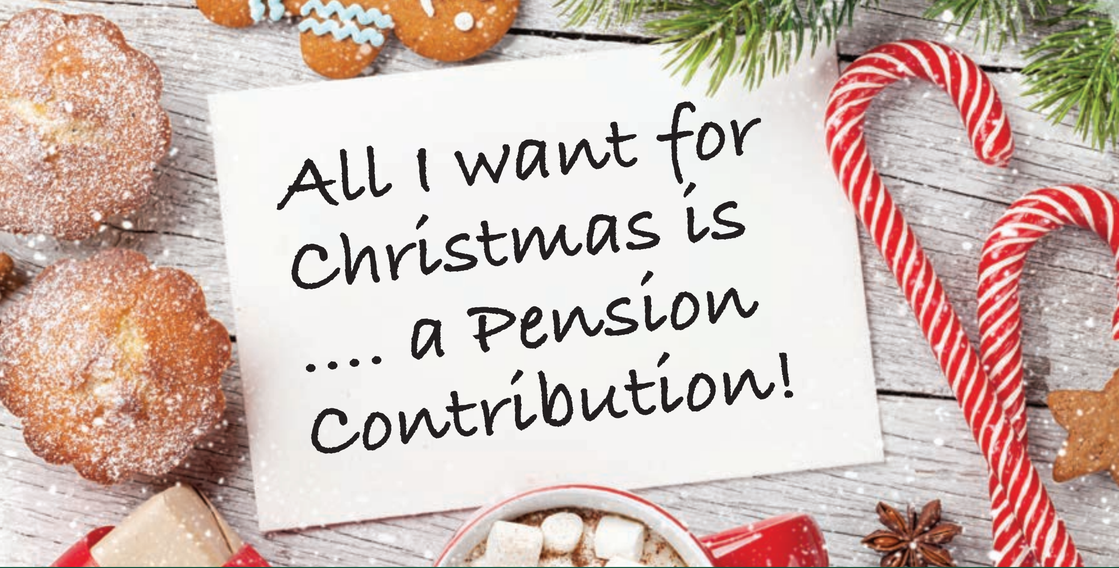
If you are a UK taxpayer and make a charitable donation via Gift Aid, the charity is able to claim an extra 25p for every £1 you give. As Gift Aid assumes that the money has been taxed at the standard rate, higher or additional rate taxpayers are eligible to receive a further 20% or 25% (21% or 26% if you are a Scottish resident) of the grossed up donation as a reduction in tax liability. So remember to record any Gift Aid donations on your tax return.

Other Tax Efficient Investments

There are other investment options that are time limited and have tax incentives such as Enterprise Investment Schemes (EIS), Venture Capital Trusts (VCT) and Seed Enterprise Investment Schemes (SEIS).

In summary, as 5 April approaches we would advise everyone to consider all the tax-saving and investment opportunities available to them. If you would like more information, you can access a more detailed version of this article on the Brochures page in the Resources section of our website, or contact Greaves West & Ayre Wealth Management. We are in an ideal position to review your unique financial situation and offer independent advice, so please get in touch.

Please be aware that your capital will be at risk when you invest, and that you may get back less than you invested. There is no guarantee of how future wealth will be taxed, and everyone's situation is unique. This article does not constitute financial advice, so before acting upon it, the reader should always take the appropriate financial advice.



Did you know that you are able to contribute to someone else's pension? There are big tax benefits for saving into a pension pot; if contributions are within the annual allowances then there is no tax payable on any growth, tax is only paid at the marginal rate of the pension owner when they take money out. However, it is worth noting that under current legislation no withdrawals can be made until age 55, rising to 57 in 2028.

There are many groups of people who could benefit hugely from someone paying into a personal pension for them including:

- Those who aren't earning, perhaps because they are looking after children or caring for someone.
- Those who have just started out in their careers and are only able to make modest contributions.

The amount you can contribute depends on the circumstances of the pension owner, not the person who is making contributions. The amount that someone can pay into their pension(s) every year is either £40,000 or 100% of their earnings, whichever is lower. Tax relief is automatically added to the pension pot at the basic rate. And if the pension owner is a higher rate tax payer, they can claim back additional relief via their tax return.

Even if you don't earn, you can contribute up to £2,880 per year to a pension and still get tax relief at the basic rate. This even applies to children. Much like a Junior ISA, parents and legal guardians may set up a pension for a child, which will pass to them when they are 18. Once set up, anyone can make contributions up to a total of £2,880 per year for a child, boosted to £3,600 gross. Although it may seem like extreme forward planning, the tax-relief added to the compound interest built up over time make it an excellent way to save for your child's or grandchild's future.

So when might it be a good idea to take advantage of this tax-planning opportunity? Well, if you have maximised your own pension contributions and have surplus income, you might want to pay into your spouse's or child's pension. Alternatively, as mentioned above, pension contributions to a child or young adult are a tax-efficient gift that can help with their long-term financial security. Within the right circumstances, timely contributions may reduce future inheritance tax bills or help a pension owner affected by the 'high income benefit charge' qualify for child benefit payments. There is a lot to consider around pensions and we would always recommend you take advice.

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, so before acting upon it, the reader should always take the appropriate financial advice.

From Strength to Strength

In recent months, following one of the busiest periods in our 100-year history, we have been delighted to welcome 25 new staff, with more vacancies set to be filled in the coming weeks.

Positions have been across GWA's many departments, from IT to VAT and at every level from apprentices to senior management. This takes our total workforce to 130.

As well as new recruits, there have been also been a number of significant senior promotions within the existing team.

We also launched the GWA Academy. This is an in-house training and development Centre of Excellence that facilitates and promotes education and skill sharing, allowing all employees to develop their talent and grow confidently.

The investment in people has been mirrored by a substantial investment in new technology upgrades as we continue our commitment to provide flexible and rewarding careers and our clients with the support they need as the economy rebuilds. After a demanding 18 months, we believe we will emerge from the COVID-19 crisis even stronger and prepared for continued growth.

Training partner, **Roseanne Bennett** comments;

"Like most businesses, the pandemic challenged us on both a commercial and personal basis. However we stepped up. Almost overnight we went from running the business from three offices to operating out of 90 spare rooms, home offices and kitchen tables across the country without compromising client confidentiality and security.

"Our ability to innovate and to operate flexibly has been key to dealing with the crisis and preparing for recovery. I am incredibly proud of how everyone worked together to support our clients with their unprecedented business and IT needs over the last 18 or so months."

Photo (from left): Stephanie Rutherford, Isabella Seale, Emily Patterson, Chris Semple, Toby Douglas and Richard Kirkham.

Forward Planning is the Key to Selling Your Property

Are you thinking of selling or gifting a residential or commercial property? Before you do, it is worth considering how you can minimise any Capital Gains Tax liability that may arise from the sale.

Capital Gain Tax (CGT) is a tax on the profits you earn when you dispose of an asset that has increased in value. Some types of assets can be exempt and everyone gets an annual exemption. For 2021/22 this is £12,300 per person, which means you can gain up to this amount without any tax being due.

When it comes to property, an asset disposal can mean either a sale or the gift or transfer at undervalue of an asset. This means many people can be affected by CGT including second homeowners, landlords, couples getting divorced, trusts and estates.

CGT is not usually an issue when you sell your main home, provided you meet certain criteria. This is as a result of Principal Private Residence Relief (PPR).

However, if you are selling a property which has not always been your main home during ownership, then CGT may apply. CGT also comes into play if the property has been used wholly or partly as an investment or for business use. The CGT rate varies depending on whether the property is commercial or residential and whether you are a basic or higher rate tax payer. If the property has been used for business, you may be able to claim Business Asset Disposal Relief (BADR). This will allow any gain to be charged at 10%.

Since April 2020, UK taxpayers disposing of UK residential property and making a capital gain have been required to calculate, report and pay CGT within 30 days of completion of the sale. Since then, the deadline has been increased to 60 days.

So what planning measures can you take to reduce any CGT liability?

A: Increase Available Annual Exemptions

Since CGT is exempt on transfers between spouses, one option is to put the property in joint ownership prior to selling. By gifting half of the property to a spouse or civil partner on a 'no gain/no loss' basis, you can potentially make use of each partners CGT allowance, allowing a tax-free gain of £24,600 (2021/22 level). If the spouse is a basic rate taxpayer, there may also be further CGT savings on gains over this level.

It is important to seek appropriate legal advice to ensure the transfer of property is carried out correctly. You should weigh up any associated professional fees against the potential reduction in CGT.

B: Reduce the Tax Rate Payable

Basic rate tax payers pay CGT at a lower rate (either 10% or 18% depending on the property type). It might therefore be favourable to reduce your income or increase the basic rate threshold, eg by making pension contributions or charitable donations, in the year of disposal.

C: Consider Capital Losses and Timing of Sales

Capital losses made on other assets in previous tax years, or in the year of the property sale, can be used to offset a capital gain. This means that the timing of the disposal of assets can have a significant impact on the amount of CGT due.

D: Discretionary Trusts

CGT can arise if you gift a property to anyone other than a spouse or civil partner. One way to avoid incurring an immediate CGT charge is to make use of a discretionary trust. The transfer in and out of a trust allows the capital gain to be 'held over' to those receiving the asset. If the property is sold at a future date, CGT may then be payable.

When the property is transferred out of the trust, each person receiving the asset will have their own annual exemption. This can significantly reduce the overall CGT when compared to the original owner selling the asset, when only one annual exemption would be available.

Discretionary trusts have their own tax regime. Once again this, along with the professional fees to set up the trust and transfer property, should be considered alongside any potential tax saving.

In summary, there are many things to take into account when selling a property. If you are able to plan the disposal, then there is potential to substantially reduce your CGT bill. You will, however, need to be aware of professional costs and other tax consequences of any action you take. Please do get in touch with us for advice on all the options available and how they apply to your individual circumstances.

Well Done Stuart!

We are proud that partner, **Stuart Millar**, has been named in a prestigious list that showcases rising stars within the UK's accountancy profession.

The Accountancy Age 35 under 35 is an annual ranking that recognises the outstanding efforts of 35 individual accountants under the age of 35 who have made notable contributions to their profession and their firms.

After gaining a BAcc Hons degree from Glasgow University, Stuart trained with a firm in Glasgow before joining GWA in 2016. His technical ability, hard work and commitment were quickly recognised and he was promoted to Associate in 2018 and made a Partner earlier this year.

"I love the variety of my work at GWA"

Becoming a Partner during the pandemic presented unique challenges which Stuart met with characteristic flexibility, resilience and leadership. He remained a supportive colleague and was pivotal in helping his clients and the wider local business community navigate the disruption.

Not one to be complacent, Stuart is currently studying to be an FCA accredited Independent Financial Advisor which will allow him to provide a broader, holistic service to his clients in the future.

Stuart comments "I love the variety of my work at GWA – I don't think many of my peers could demonstrate experience across such a wide range of service lines and sectors."

Everyone at GWA sends their congratulations to Stuart on this fantastic achievement. We are sure his career will continue to go from strength to strength.

Community News

Since our last newsletter, we have been pleased to donate to the following local causes though our Staff Community Support Initiative: Glendale Curling Club was nominated by **Lindsay Dalgliesh** and **Steven Burns** put forward Duns Football Club.

Recently, we have been participating in local yuletide activities. Once again, we are delighted to sponsor the Berwick Christmas Loyalty Scheme. Running for the 3rd consecutive year, this campaign is organised by the Berwick Chamber of Trade and provides an incentive to the local community to support more than 100 businesses based in and around Berwick.

We are also pleased to contribute to the Scremerston Community Christmas appeal. This community initiative provides the village's festive lights and subsidises a Christmas lunch for senior citizens.

GWA is also one of 24 local organisations taking part in the 2021 Berwick Advent windows. From 1 December until Christmas Eve a new window will be unveiled every day, each one reflecting this year's theme which is 'A Christmas Journey'. At the time of writing, those responsible for our window are giving nothing away. However, all will be revealed on 10 December!

Finally, we are delighted to be able to support the Mission Christmas Cash for Kids campaign once more. Each of our three offices in Haddington, Bournmoor and Berwick are donation points where members of the public can drop new, unwrapped Christmas gifts. These will then be distributed by the Cash for Kids team to disadvantaged children in the local areas.

'Tis the Season ....to Get Ready

Did you know that, according to HMRC, more than 2700 taxpayers filed their Self-Assessment returns on Christmas Day in 2020? We're not advocating that you do the same, unless you choose to of course! However, as the end of 2021 approaches we would like to remind you of some important deadlines looming in the early part of next year.

JANUARY 31 2022

Self-assessment tax returns for 2021/22 must be submitted by midnight on 31st January. Penalties will apply if you miss the deadline. Please get in touch as soon as possible if you need help.

APRIL 1 2022

From this date all UK VAT-registered businesses must be MTD for VAT compliant, regardless of turnover. For more information, please visit the news section of our website, or get in touch with our VAT team.

APRIL 5 2022

This marks the end of the tax year and the date by which you must have used your 2021/22 reliefs and allowances. Some useful tax tips can be found in our Year End article on pages 4-5.

Staff News

We are delighted to welcome some new, as well as some more familiar, faces to the GWA team. **Marion McIntosh** has joined our admin team, **Leesa Watson** is a welcome addition to our VAT and Bookkeeping department and **Amanda Nicholl** and **Ryan Reilly** have bolstered our growing Accounts team. Marion and Ryan are based at our Haddington office, whereas Leesa and Amanda will be working from our Berwick office. We are also really pleased to have both **Kim Turnbull** and **Michelle Ritchie** return to the fold.

As ever, various members of the team have celebrated a variety of professional and personal accomplishments over the last few months. Hats off to **David Simpson** from our Wealth Management department who has qualified as a CIIL4 Dip Financial Advisor. Also, our very best wishes go to **Sharon Virtue (nee Easton)** and her husband Pete who got married on 6 November. Finally, we send massive congratulations to our Head of Wealth Management, **Mark Harrison**, who completed the 2021 London Marathon in October. As well as it being a tremendous personal achievement, Mark also raised over £1500 in sponsorship for mental health charity Tyneside and Northumberland Mind.

FESTIVE OPENING HOURS

Friday 24 December: Both Offices – 09:00 - 13:00
Monday 27 December - Friday 31 December: Both Offices – Closed
Monday 3 January: Berwick-upon-Tweed – Open
Wednesday 5 January: Haddington – Open

We would like to wish our clients and colleagues a
Happy Christmas and a prosperous 2022
Thank you for all your support throughout 2021

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CHARTERED ACCOUNTANTS

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