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Private Client Round Up

INTRODUCTION

The Bessler Hendrie Private Client team provide a range of services relating to your tax position at all stages of life, and that of your family, as well as assisting with tax-efficient transfers of assets during lifetime and on death. From preparing annual tax returns to providing advisory services to protect and enhance your wealth, the team can work with you to achieve your financial aims during your lifetime, and protect your family beyond that.

This summary sets out some of the services we are able to offer, together with some topical highlights. Please do come and see us to see if we can assist you.

Residence Review Service

Individuals are now more internationally mobile than ever before.

From 6 April 2013, the UK has had a statutory residence test. At a mere 21 pages long, the legislation is dwarfed by the 105 pages of guidance issued by HM Revenue & Customs to explain how the test works.

Bessler Hendrie offer a Residence Review Service to assist those who wish to be resident in the UK; those who wish to be resident outside the UK and those who simply wish to know where they have been resident in the past so that they can regularise that position. We also offer advice on the UK tax and tax treaty consequences of that position, and how any changes in residence can affect that position.

> ***'The hardest thing in the world to understand is the income tax.'***
> *Albert Einstein*

Domicile Review Service

Domicile is the principle link by which HM Revenue & Customs consider whether an individual is subject to UK inheritance tax or not. Domicile also affects an individual's liability to income and capital gains taxes. This is an area where HM Revenue & Customs are looking harder at the position of those claiming to be non-UK domiciled.

Domicile can also be dictated by operation of UK law, so it is important to know what your position is, and how the law can affect you if you are non-UK domiciled.

Bessler Hendrie offer a domicile review service. This reviews actual domicile, the position moving forward and the tax and other consequences of changing domicile. We can also assist with undertaking tax planning to mitigate liabilities.

Meanwhile, two certainties: death and taxes…

UK inheritance tax (IHT) is levied at the flat rate of 40% on any assets not covered by the Nil Rate Band (£325,000 until 5 April 2021). With IHT raising a record £5.2 billion in 2017/18, this tax is catching more estates than ever before.

Many of you will have heard of the new Residence Nil Rate Band (RNRB). This is an additional amount designed to relieve some of the main home from IHT – up to £1 million between spouses. This sounds great in theory, but as always, the devil is in the detail, and the detail means that this is not necessarily going to help everyone.

This is a transferable exemption, so can be saved until the second death. However, if the second death is in 2018/19, the exemption is only £125,000, increasing to £175,000 by 2020/21. The RNRB will be reduced if the value of the deceased's estate is over £2 million before other reliefs, so even if not restricted on the first death, with the increase in value of properties, the relief may well be reduced on the second death. And the greatest restrictor is that the property must pass to descendants of the deceased, including step, adopted or foster children. But, if the property is sold or downsized, the descendants can still benefit. The rules are complicated and advice should be sought.

Home from home

Many people have property outside the UK. This could be a holiday home, an investment property or even a former family home from before they moved to the UK.

There are tax consequences in the UK for those with property abroad if that property is let out, or even if it is only loaned to friends and family for a fee designed to cover the costs.

This is seen as income from property for UK purposes, and should be reported in the UK. Expenses 'wholly and exclusively' for the purposes of the letting may also be claimed, so you are only taxed on your net income. You may even be able to treat a property that meets the qualifying criteria as a furnished holiday let.

Any gain on sale will be subject to UK tax, and if you are UK domiciled, that property will form part of your estate for UK inheritance taxes.

But what is the position in the country where the property is located?

Most countries tax rental income arising from property situated in that country. They will apply their own domestic rules to calculate the taxable income, and apply their own tax rates.

The same will also apply to any gains on sale. Some countries have additional taxes that do not have a UK equivalent, such as wealth tax.

And then you die, and two countries may want to tax you or your heirs!

It is important to understand the implications of owning non-UK property and assets, and how the various rules in each country are affected by double tax treaties.

36%

Inheritance tax rate if at least 10% of the estate passes to charity. Terms and Conditions apply!

Double tax treaties exist so that you don't pay tax twice if you live in one country and have income or gains in another, but they do not stop you paying the higher rate of tax.

Getting this right in the first place, by taking good UK and overseas advice can save you a significant amount in the long term.

Wills and the Digital Age

The world is changing we live much of our lives online – banking, PayPal, supermarket reward cards, music accounts, ebooks, blogs, photographs, social media accounts.

Much of what we download is governed by 'End User Licence Agreements', which often stipulate that we do not actually own, for example, music or ebooks, but can only use it for the rest of our lives (as compared to a vinyl record, CD or even cassette tape).

Some digital assets can be inherited, and certain social media sites have put in place guidance pages for the death or other impairment of users. Some sites allow for a 'digital executor' to manage accounts, whereas others may simply cancel the account. A good place to start is to make a list all of the accounts and social media that you have signed up to.

We can assist with facilitating your wishes and helping you draw up a Letter of Wishes (which should be reviewed frequently, as should your Will) to retain with your Will.

Will Review Service

The statistics about Wills are shocking – whilst few people expect the under-40s to have made a Will, 40% of over-55s have not done so. Even those who have written a Will are unlikely to have reviewed it since signing it or within the last 10 years. With the tax take from inheritance tax increasing to a record high of £5.2 billion in 2017/18, planning for inheritance tax via lifetime gifts and through Wills is becoming more important than ever.

None of us really want to face our own mortality, and writing a Will means that one admits that one won't be around forever. However, intestacy rules don't always favour the people you expect, and whilst you can vary a Will after death, this does not apply on intestacy.

Wills are not for the old – younger people may not always have much in the way of assets, but they can decide how they would like them left. And what about if you have young children? Whilst the statistical likelihood of both parents dying whilst the children are under 18 is small, it does happen. Who have you appointed as Guardian to your children? How will they look after your child or children financially? What will happen if they die?

There are three main points to remember regarding Wills:

1. **Write** it soon. None of us know our future, and regardless of age, a Will means you choose how whatever you have is disposed of on your death.

2. **Review** your Will at regular intervals. Any life change is a perfect opportunity to review your position financially as well as your Will.

3. **Tell** people where your Will is kept – especially the people named as your executors. They will have to prove the Will, and it will be cheaper and easier for everyone if the whole house does not have to be searched only to find it was with the solicitor, in a safety deposit box, or hidden in a book all along.

Any estate planning, especially tax planning, can be started during your lifetime. Your Will is an important part of that process, so it should be reviewed along with any other tax and/or financial planning.

Bessler Hendrie offers a Will Review Service. We spend time with you to establish what you want to achieve, and then review your Will to ensure that it actually achieves what you want it to. This can be as a stand-alone exercise, or part of a wider estate and succession planning review. We can also discuss the benefits of health and wealth Lasting Powers of Attorney with you, and who should have those powers.

60%

The percentage of adults in the UK who have not yet made a Will

Pensions are in a State…

The state retirement pension amount varies from person to person, depending on their Contributions and circumstances. The full state pension is £164.35 per week, or £8,546.20 per year in 2018/19. Earlier this year, it was reported that for a 'comfortable' retirement, an individual requires around £23,000 per year. 'Comfortable' is not defined…

Pensions, whether workplace or private, are a tax-efficient way to save. For a basic rate taxpayer, the Government adds £20 for every £80 you invest, so you put in £80 and get £100 in your pension fund, whilst the Government adds £40 for every £60 invested by a higher rate taxpayer. Employers have to contribute to your workplace pension by law, so this is effectively a pay rise. Where else does the Government give you money like that? In addition, a pension can be a tax-efficient way to extract profits from a business. However, a pension locks your money away until at least age 55, so there are disadvantages.

When considering your pension saving options, you have to consider how much you can contribute. Generally, you can contribute £40,000 per annum, including the tax relief. But this 'Annual Allowance' reduces for higher earners and can be as low as £10,000. In addition, you can only currently contribute a total of just over £1 million to a pension during your lifetime (the 'Lifetime Allowance') before tax charges of up to 55% apply on extraction. As such charges on the excess apply in addition to normal income tax on any income, getting this wrong can be an expensive exercise!

There are many options for taking your pension and you can even extract the whole fund. This flexibility is called 'Pension Freedoms', but you do have to consider what, if any tax charges will apply. For example, if you take the whole pension as a lump sum, 75% of the amount will be seen as taxable income and taxed at your highest rate of tax. So you need to think about what you will take and how, as well as when.

On death, any remaining fund is usually inheritance tax-free. Where the deceased was under 75 at death, there is usually no tax at all; however, if the deceased is 75 or over, the beneficiary usually pays tax on whatever they receive at their marginal rate of income tax.

Bessler Hendrie can help you review how to extract profits from your business to fund a pension, or otherwise ensure that you are maximizing your contributions. We can also help you to plan a tax-efficient retirement.

The younger generation

Helping children and grandchildren can be a minefield.

When children and grandchildren are born, we want to assist them with expenses they may face in the future. Parents want to start a savings account, grandparents want to help with school fees and also help reduce their own estate for inheritance tax in the process. So what do you need to look out for?

Parents especially need to be careful putting money into a savings account or giving dividends to their minor children where contributions from the parent generate income exceeding £100 per annum. Such income is taxed in the hands of the parent, not the child. The money belongs absolutely to the child at age 18, so you may want to restrict how much they have access to when they reach that age.

It is possible to pay into a pension for a child or grandchild. However, this will be inaccessible until they reach age 55.

If the child or grandchild is over 18, up to £4,000 per annum can be added to a lifetime ISA, giving that child an extra 25% bonus every year it is held until they are 50.

With company shares, using a family investment company or different share classes can help spread the wealth without troubling the taxman until they are 18 or even over this age.

There are even investments that can restrict withdrawals and access to capital, although as investments, these carry more risk.

All of these options show that there is no such thing as one size fits all tax planning. We are all different, and our tax planning should reflect our circumstances at different times in our lives and those of our loved ones.

The Cryptocurrency revolution

Bitcoin. Ethereum. Golem. Ark.

Not strange new lands or science fiction characters, these are all types of virtual currencies, of which over 1,000 different versions exist.

Holdings of such currencies are becoming more common as Bitcoin hit a high of over £14,500 in December 2017, before slipping to just under £5,000 by 5 February 2018. However, virtual currencies are unregulated and extremely volatile.

If you sold your Bitcoin at those heady heights, did you know that you may need to pay tax on any profits or gains you made? If you bought or sold a real asset for a virtual currency payment, you may also need to work out if there was an exchange rate gain or loss.

If you would like to discuss this, or any other tax issue, please do not hesitate to contact Bessler Hendrie to discuss your tax obligations.