Ellacotts Tax Newsletter – June 2019

Welcome to the Ellacotts Tax Newsletter.

This month we look at:

If you have any questions or would like to discuss an article in more detail, please contact us.

The Residence Nil Rate Band; if you qualify, it could save you £140,000 in Inheritance Tax

Inheritance Tax is the most emotive of all the taxes. As a result of this, planning is often delayed and family discussions are put off. It can, therefore, be the most difficult tax to ensure families take the necessary time to plan for. As a tax advisor, this can be quite frustrating, with many labelling Inheritance Tax as a voluntary tax, as with timely planning a family can protect their estate significantly for future generations.

Many will be aware that each individual has an exemption threshold of £325,000 before an estate is subject to Inheritance Tax, and this has been frozen for many years now. This amount can be offset against any assets held on death and it can be passed on to the spouse or civil partner.

What many people are unaware of is the additional threshold being phased in until its full implementation in April 2020. This is the residence nil rate band of £175,000 per individual. This additional band was designed to give a married couple or civil partnership the headline £1million exemption from Inheritance Tax. However, it has been introduced in a far more complex way than to simply increase the standard nil rate band.

Unlike the £325,000 threshold, there are a whole host of conditions you need to understand to ensure you benefit from the £175,000 residence nil rate band. The additional band relates to property that is in the death estate and was once your main home. It must be passed on to direct descendants and if the value of your estate is worth over £2.35million by 2020 then you will not benefit from this additional band at all. There are numerous other considerations, for example, if you are to downsize your property and hold multiple properties on death.

However, this blog is not exhaustive and is to simply highlight the need to seek advice in this area.

As part of your family Inheritance Tax planning, you should understand if you can benefit from this relief, after all, it could exempt up to £350,000 of your estate, providing a tax saving of £140,000. If you do benefit then in addition to knowing this, you need to understand how you hang onto the relief. The last thing you want is to be caught out by a change in circumstances that impacts this.

We also find two aspects are often overlooked and prevent families benefiting from this relief. Firstly, where families want to leave their home in trust on death. If this trust doesn't mean the property forms part of the beneficiaries estate this will not fulfil the passing on to a direct descendant condition, therefore a discretionary trust would prevent this relief from being received. Secondly, whilst a large proportion of business owners' estates may be exempt under the Business Property Relief or Agricultural Property Relief rules, those exempt values are still taken into account for the purposes of establishing the size of the estate for the residence nil rate band. Therefore families with sizeable businesses will not qualify for this relief and it is important that they are aware of this.

In summary, it's important to seek advice from an experienced tax adviser and to ensure you do so leaving the family plenty of time to consider their options. It is not an area of tax that families should rush into, but it is certainly not an area of tax that families should delay. Starting to consider this early on as part of your family's wider financial planning means you have the time to consider your options carefully.

If you would like to discuss your Inheritance Tax position, Ellacotts offers a free initial consultation. Please contact Ann Bibby on 01295 250401 or abibby@ellacotts.co.uk for more information.

Life after Love Island. What happens when the cameras stop rolling?

The 2019 series of Love Island on ITV runs until the end of July, so don't panic, it has only just begun.

However, many of you watching this year's show will already be trying to guess what the contestants might go on to do next, and who will be successful when the cameras stop rolling.

Whilst the cynics among us will see such reality TV shows like Love Island as just one big holiday, and I'm sure at times they are, but the reality the contestants actually face when the show comes to an end is a really hard industry; it's difficult to maintain a place in the spotlight.

So why are a firm of accountants, writing a blog about Love Island?

First of all, behind the sparkling white teeth and tans, the Love Island contestants will be approaching the show as a business proposition and will have a plan. The show is the first stepping stone of their plan, and they will know what is going to make them popular in the show, (perhaps we steer clear from any detail here). They will also be well aware of what will need to happen in a really short space of time after they have left the show and become famous.

From getting a celebrity manager to the all-important sponsored Instagram posts and talk-show guest appearances, some will also go on to present and host similar TV and entertainment shows; the real work begins after the show.

In addition to their business-focused approach, the now famous reality TV stars may be lucky enough to accumulate several different sources of income and most of the time, this will be on the basis of them working in the business on their own account, through their own personal service company. They will then need to take account of tax on this income and instruct tax advisors to guide them through the maze of accounting and tax terminology and rules; to help them stay on the straight and narrow but at the same time be as tax efficient as possible.

What do the IR35 rules have to do with Love Island?

Why this is even more topical for this year's contestants is the tax changes faced by freelancers and those working through their own personal service companies. The public sector has seen compulsory change and the onus is now on the public bodies to ensure their off payroll workers are assessed for tax purposes and put onto the payroll if they are found to not be in business on their own account.

The private sector is to be hit by the same compulsory rules in April 2020 and therefore, there will be far more scrutiny over how income should be taxed. HMRC used to consider multiple income streams as favourable, and they can still do so, but they will now look far closer at each income stream in isolation, to assess if the work was undertaken as an employee with direction, supervision and control, amongst other things such as financial risk and being able to provide a substitute.

How this year's contestants undertake roles presented to them after the show and the supporting contracts, will be critical to how they will be taxed on this income. They should, therefore, think carefully about ensuring they have a good business advisor as well as a good manager.

Are you a freelancer and need help with your tax position?

If you are a freelancer or contractor and work as a sole trader, partnership or through your own personal service company, then please contact Ann Bibby on abibby@ellacotts.co.uk or 01295 250401, to fully understand the impact these rules will have on your tax position.

Doctors lobbying for pension tax changes

Hospital doctors and GPs in the UK are lobbying the government to amend the pension tax rules as the current system of restricting tax relief on pension contributions means many doctors paying almost all of the extra salary back in tax if they take on additional responsibilities or work additional shifts. This is an issue that doesn't just affect doctors as it potentially restricts the tax relief available to other individuals with high income.

The NHS Pension Service has alerted members of the NHS Pension Scheme that they could receive a tax bill if their pension savings exceed limits set by HM Revenue and Customs (HMRC). These limits are known as the annual allowance, which is calculated each year, and the lifetime allowance, which is calculated based on overall pension savings.

The normal annual pension allowance is currently £40,000 each tax year and limits the amount of pension contributions which qualify for tax relief. The limit covers the combined contributions paid by the taxpayer and their employer. A tapered annual allowance was introduced in April 2016 with the intention of reducing pension tax relief for high earners. It applies to those with adjusted incomes of over £150,000 and threshold income in excess of £110,000. The rate of reduction in the annual allowance is by £1 for every £2 that the adjusted income exceeds £150,000, up to a maximum reduction of £30,000 at £210,000.

We can help you work out this complicated calculation and plan to minimise the impact of the rules as the individual is taxable on the excess pension contributions over the annual limit.

If you would like advice on your pension contributions or adjusting your income to ensure you're in the best possible tax position contact Ann Bibby on abibby@ellacotts.co.uk or 01295 250401 to discuss your situation.

We will be exhibiting at the Becoming a Parent Seminar

Our Tax team will be exhibiting at Spratt Endicott's Becoming a Parent Seminar on Thursday 13 June 2019 at the Holiday Inn in Oxford from 3pm-7pm.

Ellacotts 20 Mile Walkathon for Mind UK

On Saturday 22 June 2019 a team of 25 Ellacotts staff and Partners embarked upon a gruelling 20 mile Walkathon to raise money for our Charity of the Year 2018-2019 Mind UK.

Starting at the Ellacotts office in Banbury at the early time of 7:30am, we walked along the Jurassic Way for 20 miles stopping off at various villages including

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Middleton Cheney, Wardington, Chipping Warden, Woodford Halse and lastly finishing in the stunning village of Hellidon.
We are so proud that we've smashed our £5,000 target but we would love to raise even more to help support the amazing work Mind do, if you wish to donate please visit our fundraising page.

David Stevens, Managing Partner, said:
"We're really proud of our fantastic team for completing our 20 mile Walkathon on Saturday. We were very lucky with the weather and had a great support team who kept us going with refreshments throughout the day. We're delighted to have beaten our target and raised over £5,000 for Mind and would like to say a big thank you to everyone who has donated and supported us."

About Mind:
Every year, one in four of us will experience a mental health problem. But hundreds of thousands of people are still struggling.
Mind UK provides advice and support to empower anyone experiencing a mental health problem. They campaign to improve services, raise awareness and promote understanding.

As well as campaigning on a national level, Mind provides help and support directly to those who need it most. Their network of around 135 local Minds offers specialised support and care based on the needs of the communities they support.
If you would like to help us support this fantastic charity, please donate by visiting our fundraising page.