b. The gifts made by John during his lifetime but within 7 years of his death of £400,000 is £75,000 over the NRB of £325,000.

The £75,000 can be directly attributed to the gift to John's son in August 2014 which was 3 years and 2 months prior to John's death. The sliding scale of Taper Relief for periods of more than 3 years but less than 4 years is 8% giving an IHT liability for John's son of £24,000. This is calculated as £75,000 x 32% (40% tax rate less 8% Taper Relief).

Top tip:

Careful IHT planning can help to reduce the IHT liability. Ensure you fully utilise the:

- Annual gift exemptions of £3,000. If this has not been used in the previous tax year then 2 exemptions can be use in one tax year.
- Small gift exemption of £250 to any number of individuals in a tax year, but not to the same individuals as receive the £3,000 gifts above.
- Wedding Gifts exemptions. An exemption of £1,000, £2,500 or £5,000 depending on the individual's relationship with the recipient.
- Gifts out of income exemption. Provided the individuals income and not their **Capital** is used to sustain their life style and the regular payments this can give substantial IHT savings.
- Gifts for maintenance of husband, wife or civil partner, ex-husband, ex-wife or ex-civil partner and relatives dependent on you through old age or infirmity. In addition gifts for maintenance, education or training of your children (including step and adopted children) in full-time education or aged 18 or under.

Top tip:

If you are the surviving partner of a marriage or civil partnership and you have subsequently re married or formed a civil partnership there may be unused reliefs available so we would recommend a review and making a full record of the unused reliefs available for use by your estate. If you would like to look at your Inheritance Tax position please give us a call.

Residence Nil Rate Band
The Residence Nil Rate Band (RNRB) is an additional allowance when a residence is passed down through the direct descendants and currently amounts to £125,000 but will increase in £25,000 tranches until on 6th April 2021.

Income from property owned jointly

If a married couple or a civil partnership receive income from properties which are owned jointly, they will normally be taxed on an even split of the income. It is possible to own property in different proportions as tenants in common. The income to be taxed on each of the individuals can then be apportioned to reflect this ownership share.

It is possible to change the share of ownership and so the proportion of the income taxable on each of the parties to their actual share but this has to be legally reflected and HMRC will require evidence that the beneficial interests in the property are unequal, for example a declaration or deed.

We are here to help

We can help you by ensuring that you're aware of the changes that will affect you, your family and your business. To find out more about the ways that we can help you, do not hesitate to contact us.

WBD
Marlbridge House, Enterprise Way,
Edenbridge, Kent TN8 6HF

Andy Branson
Tel: 01732 865965
Email: andy@wbdaccountants.com

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Selling or giving away personal belongings can sometimes have tax consequences and prior to the end of a tax year being aware of these consequences can help you make wise tax choices.

The two taxes to consider when disposing of personal belongings are Capital Gains Tax - a tax on the increase in value of a belonging, and Inheritance Tax - a tax on the overall value of your estate following your death.

Disposing of Personal Belongings - Capital Gains Tax (CGT)

When you dispose of one of your belongings CGT is calculated on the sale proceeds (if the item is sold) or the market value (if the item is given away) after deducting what it cost or the value when the item was first acquired, say for example the item was inherited.

All gains on the disposal of belongings fall to be taxed and we must first look at the two categories of belongings, tangible assets and intangible assets.

Intangible assets are, for example: shares, options, leases, copyrights, patents, goodwill. Examples of tangible assets are: land, property and **chattels.**

The most common gain made by individuals is that on the sale of a property which is not the principle private residence of the individual. For example, an inherited property or a buy to let property.

Chattels
There are slightly different rules for calculating the taxable gain when it comes to chattels.

Chattels are tangible moveable property i.e. they can be touched and moved. Land does not fall into this category as land is immovable, but examples of chattels would be jewellery, antiques, wine, works of art, yachts, caravans, vintage motor cycles and also the more mundane household appliances: washing machines, TV's, fridge/freezer.

Wasting Assets - Life span of less than 50 years
Some chattels have a short predictable life span of 50 years or less. They are termed *wasting assets.* Typically these would be household appliances, caravans and yachts. Also specifically included in the category of items with a short lifespan are antique watches, clocks and vintage motor **cycles** (but interestingly, not cars) despite them having a predictable lifespan possibly greater than 50 years.

All of these items are **exempt from CGT** because HM Revenue and Customs (HMRC) expects any item with a short lifespan to devalue over its lifespan and if the CGT rules applied this would generate a capital loss. Imagine the crisis faced by HMRC if every tax return had a deduction for the £450 capital loss on an old washing machine or freezer! So rather than face the prospect of these multiple capital loss claims from individuals, HMRC allow all gains on these wasting assets to be exempt from CGT but to counteract this, no losses on these items can be claimed.

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Chattels which are not wasting assets
These items include jewellery, paintings, antiques, fine wines, items of crockery and china, plate and silverware. This category also includes vintage **motorcars.**

These items are also **exempt from CGT** provided the disposal proceeds or value does not exceed £6,000.

When an item is disposed of and the proceeds exceed £6,000 only 5/3rds of the gain over £6,000 is taxable.

Example
A painting is bought for £2,500 and sold at a later date for £9,000 giving a gain in value of **£6,500.** But the gain to be taxed is calculated as £9,000 - £6,000 = £3,000 x 5/3 = £5,000, that's **£1,500 less** than the actual gain!

Top tip:

If you expect to make a profit on any belongings you plan to sell for more than £6,000, why not ask us to review your CGT position?

Disposal of Personal Belongings – Inheritance Tax (IHT)

When an individual dies the consideration for those dealing with the estate is whether a return needs to be made to HMRC and if IHT is payable.

Gifts of personal assets and cash made within 7 years of death have to be valued and included in the overall value of the estate. There is no exemption for chattels as with CGT. All personal belongings given away either within 7 years of death or as bequests within the will have to be given their market value as at the date of the gift.

Don't assume you will be able to sell a business asset "Tax Free"

You may be a sole trader, a partnership or run your business through your personal limited company, whatever vehicle is used to run your business there will be a time when you want to take it a little easier or stop all together and at that time having a clear plan in place well in advance will help secure the right tax reliefs for the assets you dispose of.

Example
Jane and Jimmy personally own three guest houses and run them through their limited company *Far Far Away Ltd.* They are equal shareholders. They do not live in these guest houses and they employ staff to care for their guests needs.

As they own the buildings personally, their accountant has advised them that it is possible to charge rent to the limited company for the use of the properties and that should be at the "going rate".

As directors Jane and Jimmy take a salary (on which they pay a small amount of class 1 national insurance) and some dividends each year. They live on this plus the rents received from the limited company.

One of the guest houses (Go Away) was not so popular and produces only a small fraction of the annual turnover of the business and so Jane and Jimmy decided to sell that guest house to a rival. The property was bought in 1992 for £150,000 and it was sold in 2017 for £460,000, a gain of £310,000.

Jane and Jimmy have heard from friends that when a business sells its assets then a 10% rate of tax applies and so they expected to pay around £30,000 tax on that gain but unfortunately their friends were incorrect and their accountant had to tell them the bad news, in their circumstances this wasn't the case.

To pay tax at only 10% on the sale of business assets a relief known as Entrepreneurs Relief has to apply and it is only due on business assets when the whole business is sold. As Jane and Jimmy were retaining their company and their business and only selling one of the assets - the Go Away guest house, it was not possible to claim the relief.

Jane and Jimmy were faced with a £62,000 tax liability. If they had spoken to their accountant earlier, at least 12 months before the sale of the Go Away guest house, then that liability could have been **reduced by £31,000!**

Top tip:

It's difficult to meet all of the criteria to have Entrepreneurs Relief allowed against the sale of business asset sales and planning ahead is strongly advised.

Gifts made within 7 years of death

As we get older it is natural to want to help the younger generations with a financial gift, however here are some things to be aware of if making gifts.

Any gift made more than 7 years prior to the date of death are not counted in the estates Inheritance Tax (IHT) calculation.

Ignoring the private residence of the deceased, every individual has a tax free amount they can leave in their estate before the estate is required to pay Inheritance Tax (IHT). This tax free amount is called the Nil Rate Band (NRB). However, any gifts made by the individual within the 7 years prior to their death are added back into the calculation at the time of death to see if any IHT is payable. The NRB tax free amount is frozen at £325,000 until 2021.

Example A
In total, if the deceased's estate plus all of the gifts made in the 7 years prior to their death is less than £325,000 then no IHT is payable.

- John gives his son £100,000 in August 2013
- John gives his son £100,000 in August 2014
- John died in October 2017 leaving cash and shares worth £120,000.

The NRB is £325,000 but £200,000 has been used up by the gifts leaving £125,000 to be set against the estate on John's death. As the rest of John's estate comes to less than this (£120,000) then no tax is payable.

Example B
It is important to note that the value of any gifts made is used first to reduce the individuals NRB.

- John gives his son £100,000 in August 2013
- John gives his son £100,000 in August 2014
- John died in October 2017 leaving cash and shares worth £200,000.

The NRB is £325,000 but £200,000 has been used up by the gifts leaving only £125,000 to be set against the estate on John's death.
The tax payable will be:
£200,000 - £125,000 = £75,000 x 40% = £30,000

Example C
In total, if the value of the gifts made within 7 years of death come to more than the NRB there are two consequences:

a. The whole balance of the estate on death is charged to tax at 40% - the tax is usually taken from the estate.

b. The proportion of gift over the NRB is charged to tax at 40% with a reduction depending on the date of the gift and the time which has elapsed between the date of the gift and the date of death. This "Taper Relief" gives a deduction of between 8% and 32%. The tax due is normally paid by the person receiving the gift which may come as a shock if the gift was given some years ago.

- John gives his son £200,000 in August 2013
- John gives his son £200,000 in August 2014
- John died in October 2017 leaving cash and shares worth £200,000.

The NRB is £325,000 but the gifts total £400,000.

a. As all of the NRB has been used by the gifts the estate on death of £200,000 is taxed in full at 40% giving a liability for the estate of £80,000.