Spare a thought on marriage/civil partnership

Caught up in the whirlwind of wedding preparations, the ceremony itself and the wonderful novelty of your new marital status, it is understandable, perhaps, that tax is not high on your agenda. But spare a thought, as tax issues can arise out of this new coupling and opportunities can be missed.

For example,

> Parents should be encouraged to give you wedding gifts, on or shortly before the great day, of up to £5,000 each. This could immediately save your mum and dad Inheritance Tax of up to £4,000 between the two of them. Grandparents can join in the fun with gifts of up to £2,500 each receiving the same immediate Inheritance Tax break.

This is a major change in your life, so your Will should be revisited, or one done if not already the case, to take account of this new found status.

Did you have two separate residences prior to getting married? Are you intending to use both as residences going forward?
For example, Mary's flat in London is to be used by her during the working week, whilst at weekends, the newlyweds, Ian and Mary reside in his flat in Canterbury.

If so, Mary and Ian need to make an election within two years of marriage to choose, for Capital Gains Tax relief purposes, which one is their main residence. Miss the boat and HMRC make the choice.

Is one of you a 40%/45% taxpayer (41%/46% in Scotland) and the other is not? If either of you have children from a previous relationship could this result in the higher earner being hit for a tax charge on the child benefit the household might receive? Is it feasible to restructure the income and capital base between the pair of you to improve your overall tax position? For example, bring your spouse into the business or transfer rental properties in whole or in part to your other half.

By sparing a thought for tax now, it can only help to keep the spark of marital bliss alive!

Top tip:

How marriage or a civil partnership will impact upon you, your partner and children from a tax perspective should be looked at by way of a marital/civil partnership review taking account of your personal circumstances. We are happy to provide such a review.

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.

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To defer or not – State Pension

For some of us the state pension age is fast approaching. Where that is the case you should receive a letter from the Pension Service, certainly no later than 2 months before you reach that milestone. You do have to actually claim the state pension to receive it and how you do so is laid out in the correspondence. In the vast majority of cases you will make the claim and the pension will be paid across, usually within 5 weeks of reaching state pension age.

If the claim is not made then, effectively, you are deferring taking it until a later date of your choosing. The failure to claim might be down to sheer forgetfulness, which can happen on occasions. However, there may be some circumstances where you might want to actively consider deferment. You can still defer taking the pension even if you have already started drawing on it.

It very much depends upon each person's individual circumstances whether to defer or not.

- **You might already have sufficient income to live off** and the state pension might simply be adding to your capital base.
- **You could be an additional higher rate taxpayer** at this moment and the state pension would take you into the higher rate tax bracket or over the £100K threshold at which point your personal allowances will start to be lost. Whereas you may be retiring in 2 or 3 years' time at which point your taxable income levels may fall, resulting in the state pension being taxed at a lower rate than at present.
- Likewise, **deferring may be appealing if you have emigrated or are about to** do so to a country where your state pension isn't subject to the UK's annual increases such as Australia.
- **Some people also see the deferral as a sort of savings account** which will boost their state pension when they actually take it. How big the boost is depends upon when you have reached pensionable age, pre or post 5 April 2016 and for how long you defer. For example, if you reached pensionable age by 5 April 2016, for each full year your deferred state pension would increase by 10.4%. Reaching state pension age post that date, and deferring the pension for a full year, the increase falls to 5.8%.

When you actually draw on the state pension that income then becomes taxable. If you were of pensionable age by 5 April 2016 you can either simply opt for the increase to be reflected in your monthly state pension going forward and taxed in the normal way, or take the deferred amount as a lump sum which will be taxable at the marginal rate the rest of your income is taxed at for the year in question.

So, for example, if you paid tax on your other income at 20%, or 21% in Scotland, then the whole lump sum would also be taxed at that rate. However, if you are of pensionable age post 5 April 2016 then you can only choose the monthly route.

Deferring the state pension will clearly not be right for the majority of people but should definitely be considered based upon the individual circumstances. Other factors such as your health and, going forward, the impact upon claiming other state benefits should also be considered. We are happy to discuss this with you.

Top tip:

Bearing in mind, for one reason or another, the errors made in allocating the National Insurance contributions made to the correct individual's records, it is recommended you should review your state pension eligibility on at least a five-year basis.

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CHARTERED ACCOUNTANTS

Charitable Thoughts

We British are a very charitable nation and are always looking at ways to help our local and national charities in a tax efficient way. The most popular option is by way of the Gift Aid scheme. Assuming you have paid enough income or capital gains tax and made a proper Gift Aid donation, then, the charity concerned can claim back from HMRC £25 for every £100 donated. Dependent upon the level of your income you can claim additional tax relief for the gift you have made.

Some people will use the Payroll Giving Scheme run by their employers or pension providers. You can donate straight from your wages or pension. This happens before tax is deducted from your income. This means you are receiving tax relief at source potentially saving up to 45% or 46% (if a Scottish taxpayer).

But what if you are asset rich and cash poor and want to help a charity financially? You could sell the asset first and then use the Gift Aid scheme to make the charitable payment. If you make a profit on the sale of the asset you could end up paying Capital Gains Tax of up to 28% on the sale.

However, you could consider gifting shares/land/buildings direct to the charity instead of cash. By doing it this way you can avoid the Capital Gains Tax problem and you can also potentially obtain income tax relief against your taxable income based upon the market value of the asset at the date the donation was made.

For example:

> Your income for the year was £90,000 and you decide to gift £20,000 shares to a charity. You receive no payment or benefits from the charity for those shares. You avoid any Capital Gains Tax plus you would receive tax relief of £8,000 (£8,200 in Scotland). A net cost to you of £12,000 (£11,800 in Scotland).

Top tip:

You can also leave assets (cash or otherwise) in your Will to charity. The value of these assets will fall outside your Estate for Inheritance Tax purposes. If you gifted 10% or more of your Estate to charity then the remaining part of your Estate, if liable to Inheritance Tax (IHT), would only attract it at a tax rate of 36% as opposed to 40%. Please contact us if you would like an IHT review or to look at the most appropriate way for you to make charitable payments during your lifetime.

Volunteer to VAT Register

Normally if your business's taxable turnover has, over the previous 12 months, exceeded £85,000 or will do so in the next 30 days, then you have to register with HMRC for VAT purposes. Going forward your business would charge VAT (the normal standard VAT rate being 20%) on supplies of goods and services to your clients.

The fear, of course, is that this may make you less commercially competitive in comparison to your rivals in the eyes of your customers. Where a client cannot recover the VAT from HMRC this could certainly be the case. You may also have been watching those HMRC adverts on the telly lately, pointing out that where you are VAT registered you have to keep your business records and submit VAT returns digitally using compatible software. It is called Making Tax Digital (MTD). An aggrieved feeling of extra administrative hassle springs to mind.

So, where your business turnover is £85,000 or below, why would you bother to voluntarily register for VAT?

- When you register for VAT you get a VAT registration number which you can display on your website, documents and business stationery. **The outside business world may see you as being bigger than you really are.** Perverse as it may seem, it adds credibility to your business and gives you a more trustworthy and professional image. Some will only deal with VAT registered businesses. So it may actually open doors to attract more work rather than less.

- **If you become VAT registered on a voluntary basis then you don't have to comply with the MTD rules** until the £85,000 compulsory threshold is breached. We would advocate that you do keep your records in a digital format, as once you have acquired suitable software and received training on how to use it, you will undoubtedly find it will save you administration time. We will be happy to assist with that process.

- If you supply goods or services primarily or solely to VAT registered customers then **you won't be any less competitive by charging them VAT (output tax) as they can recover that VAT (input tax)** from HMRC.

- Prior to you registering voluntarily, the VAT charged by suppliers on business purchases made by you would be an additional expense. **Once you register, then, this input VAT can be recovered** from HMRC, saving your business money.

Top tip:

A VAT review should be carried out, not only in this regard, but also to ensure that the correct VAT rate is being applied and to see if there are any appropriate VAT schemes which could create a greater saving for your business.

Where there's a Will there's a Way

It goes without saying that everybody who can make a Will should do so. In Scotland that can be as early as the age of 12 and in the rest of the UK from the age of 18.

It enables you, to a large extent, to control what happens to your Estate upon your death. If there is no Will, the Estate will be shared out in line with the rules of Intestacy. Those rules vary dependent upon which part of the UK the deceased comes from. At the time the Will is made you should check to see if it complies with your wishes, that it has the right protections in place. The Will should also strive to be tax efficient, if possible, not just from your Estate's perspective, but that of the potential beneficiaries.

Quite often, once a Will has been made, the individual concerned puts it away in a 'figurative' drawer and forgets about it. This is a dangerous thing to do. Your Will should be revisited, as a matter of course, every five years.

Why? Because your circumstances may have moved on in the meantime, and the Will may not reflect that change. It might be you have married or remarried. Perhaps you are going through a divorce or you now have a family or a grandchild. There may have been a family fall out or you have, sadly, contracted a terminal illness. Maybe you have received an inheritance pushing the value of your Estate above the Inheritance Tax threshold. Don't forget that tax legislation is always on the move. Take, for example, the additional Inheritance Tax relief which came in to play in April 2017 on passing your main residence down to your direct descendants.

Any of these reasons and more should result in a review of the Will you have made. We are happy to help you carry out that review and to ensure the Will complies with your present wishes and is tax efficient.

Top tip:

It is always worth creating a balance sheet of your assets and liabilities on an annual basis to keep a watchful eye on your Inheritance Tax position and, where possible, start the tax planning early to mitigate the problem.