

Tax E-News

Welcome to our monthly newswire. This month we focus on a couple of tax planning opportunities that were not blocked in the Budget. Please contact us if you wish to discuss any matters in this newsletter further. Best wishes for the festive season and 2022!

December 2021

Content accurate as at 30.11.21

CHRISTMAS IS THE TIME FOR GIVING

Many were expecting the chancellor to announce changes to inheritance tax (IHT) in his Autumn Budget, However, like capital gains tax (CGT), the rules have remained broadly the same as last year. That means that each tax year individuals may make gifts of up to £3,000 in total and that amount is not included in their cumulative total of gifts for IHT. Even if the £3,000 annual exempt amount is exceeded, provided it is an outright gift to an individual, there would be no inheritance tax payable provided the donor survives for 7 years.



Note that the gift of an asset other than cash may also give rise to a capital gain and CGT may be payable where the asset has increased in value. However if you give away a business asset such as shares in your trading company it is possible to make a claim to hold over the gain so that no CGT is payable. We can of course advise you on the procedure to follow.

REGULAR GIFTS OUT OF YOUR INCOME IS TAX EFFICIENT

One tax planning opportunity that many thought the chancellor might restrict was the exemption from inheritance tax for regular gifts out of an individual's income. Inheritance tax is designed to tax transfers of capital so if the donor can demonstrate that the gifts are made out of surplus income then the transfers are not taken into consideration for IHT. The exemption applies where there is a regularity to the payments, such as a standing order to pay school fees. HMRC will also require proof that the payments are paid out of post-tax income and do not limit the donor's normal lifestyle. Detailed records are required, and we can help you with a suitable spreadsheet.

TRUST PLANNING OPPORTUNITY STILL AVAILABLE

Another tax planning strategy that is still available despite rumours that it would be closed in the Budget was the CGT hold over relief when assets are transferred into or out of a trust.

This relief currently enables a non-business asset, such as an investment property, to be transferred without paying CGT. The relief applies where the transfer is subject to inheritance tax, but where the value transferred is no more than the £325,000 IHT nil rate band the transfer of the asset can take place without IHT or CGT being payable.

For example, Colin, a higher rate taxpayer, wants to gift his adult daughter Liz an investment property worth £300,000.

The property cost him £100,000 a number of years ago. If he were to transfer the property to Liz directly there could be up to £56,000 CGT payable on the £200,000 gain. If the property is transferred to a trust for the benefit of Liz then the transaction would be immediately chargeable to IHT but covered by the £325,000 nil rate band. The resulting gain could then be held over so that no CGT is payable.

At a later date the property could be transferred from the trustees to Liz providing another opportunity to hold over the capital gain. If this strategy may be of interest to you please get in touch. You will also need to instruct a competent trust lawyer to set up the trust.

GIFTS TO CHARITY

Where possible taxpayers should "Gift Aid" any payments to charity to provide a further benefit to the charity. Higher rate taxpayers obtain additional tax relief on the grossed-up amount donated.

For example, where an individual makes a £20 cash donation to charity the charity is able to reclaim a further £5 from HMRC making a gross gift of £25. Where the individual is a 40% higher rate taxpayer he or she is able to claim a further £5 tax relief under self-assessment, reducing the net cost of their donation to £15.

Note that the donor is required to make a declaration that they are a UK taxpayer and those that have not suffered sufficient UK tax to support the Gift Aid amount will be taxed on the shortfall.

Remember that Gift Aid does not just apply to gifts of cash. Many charity shops will now sell donated items on your behalf and are able to treat the sale proceeds as Gift Aided donations. It is also possible to gift quoted securities and land and buildings to charity and claim Gift Aid on the market value of those assets.

LET'S HAVE A REAL CHRISTMAS PARTY THIS YEAR!

Last year many businesses put on a "virtual" Christmas party event and HMRC agreed that would be acceptable in order for there to be no taxable benefit for the employees involved.



There continues to be no taxable benefit for employees provided that all staff are invited, and the cost does not exceed £150 a head, inclusive of VAT.

If you have also had an annual summer event then provided the combined cost of the two events is no more than £150 a head then there would be no taxable benefit in kind. If, however the summer event cost £80 a head and the Christmas party £100 a head only one event would qualify for the exemption.

CHRISTMAS GIFTS OF UP TO £50 PER EMPLOYEE IS ALSO TAX FREE

Remember that certain gifts to staff at Christmas are also tax free if structured correctly. Employers are allowed to provide their directors and employees with certain "trivial" benefits in kind tax free. This exemption applies to small gifts worth no more than £50 to staff at Christmas, on their birthday, or other occasions and includes gifts of food, wine, or store vouchers.

REPORT CJRS FURLOUGH GRANTS ON CORPORATION TAX RETURNS

The latest version of the CT600 Corporation Tax Return requires companies to report CJRS furlough payments received and the amounts that the company was entitled to during the period. Where any overpayments have already been disclosed to HMRC that amount should be reported.

The total amount overclaimed should then be entered in box 526. This amount will be assessed to income tax not corporation tax and HMRC will provide you with a payment reference.

ADVISORY FUEL RATE FOR COMPANY CARS

HMRC have again increased the advisory fuel rates that apply for the reimbursement of employees' private fuel for their company cars. The new rates apply from 1 December 2021, but you can continue to use the previous rates for up to 1 month from the date the new rates apply. Where there has been a change the previous rate is shown in brackets:-

Engine Size	Petrol	Diesel	LPG
1400cc or less	13p (12p)		9p (7p)
1600cc or less		11p (10p)	
1401cc to 2000cc	15p (14p)		10p (8p)
1601 to 2000cc		13p (12p)	
Over 2000cc	22p (20p)	16p (15p)	15p (12p)

You can continue to use the previous rates for up to 1 month from the date the new rates apply. For wholly electric cars there is a 5p (was 4p) advisory rate. Note that for hybrid cars use the equivalent petrol or diesel rate.

DIARY OF MAIN TAX EVENTS

DECEMBER 2021/JANUARY 2022

Date	What's Due
01/12/21	Corporation tax for year to 28/02/2021 unless quarterly instalments apply
19/12/21	PAYE & NIC deductions, and CIS return and tax, for month to 5/12/21 (due 22/12 if you pay electronically)
30/12/21	Deadline for filing 2020/21 tax return online in order to request that HMRC collect outstanding tax via the 2022/23 PAYE code
01/01/22	Corporation tax for year to 31/03/2021 unless quarterly instalments apply
19/01/22	PAYE & NIC deductions, and CIS return and tax, for month to 5/1/22 (due 22/1 if you pay electronically)
31/01/22	Deadline for filing 2020/21 self-assessment tax return online and paying your outstanding tax for 2020/21 and first payment on account of 2021/22 tax.

Please contact a member of our team if you would like to discuss any of the issues raised.

Call: 01698 258178 Email: info@alexander-marshall.co.uk