



ProActivity

SPRING 2019



**Foxley
Kingham**
CHARTERED & BUSINESS
ACCOUNTANTS & ADVISORS

FOCUS ON INHERITANCE TAX

Once thought as a tax for the wealthy, inheritance tax is now something that an increasing number of us will be affected by. Rising property prices have driven up the value of estates faster than increases in the tax-free threshold, meaning that many more estates are now subject to inheritance tax.

The government has responded to this shift with the introduction of an inheritance tax break in the form of an additional tax-free allowance on the family home; we look at this in more detail on page 3. We also look at some of the common reliefs (and traps) surrounding inheritance tax and outline how inheritance tax can affect individuals in a common scenario. *Tax note: For simplicity, although we refer to spouses, all inheritance tax rules apply equally to civil partners. Inheritance tax is a vast and complicated area, so take professional advice on your own circumstances.*

What is inheritance tax?

Inheritance tax is a tax on death on the value of an individual's estate, and the tax is payable by the estate before any funds are passed to beneficiaries. Currently the basic nil-rate allowance is £325,000, above which tax is charged at 40%. For example, a £500,000 estate will pay 40% tax on £175,000.

A word on wills

Making a will is one of the most important things you can do to ensure your estate goes to who you want it to. So, firstly, make sure you have a will, and secondly, check it's up to date. Change is constant; inheritance tax rules, families and assets all change and so plans from even a few years ago can quickly become out of date.

It's your money; spend it!

OK, it may not be popular with the children, but reducing the value of your estate can reduce your tax liability. And doesn't it just sound like fun?

On a more serious note (and one that will be a lot more popular with the family), you can give away up to £3,000 each tax year without problem, plus gifts out of income, wedding gifts (up to £5,000 by parents, £2,500 by grandparents and £1,000 by anyone else), and small gifts of up to £250. Gifts to your spouse are always exempt as they will then simply form part of their estate.

Pensions

Pensions can be an effective way to pass on funds tax efficiently. If you die before the age of 75, funds

Welcome to the Spring edition of ProActivity!

In this issue we take a closer look at inheritance tax. We also have news on the chancellor's Spring Statement, and what's happening with Making Tax Digital.

Foxley Kingham has been celebrating its 50th anniversary this past year by raising money for a number of local good causes through our Anniversary Foundation. You'll find an update on how we've done on page 7.

And as Brexit looms large, we outline some resources to help your business on page 4.

in a money purchase pension scheme can be passed tax-free to any beneficiary. After age 75, pension benefits are taxable on the beneficiary at their marginal rate of income tax. For more details speak to your IFA.

Trusts

Trusts can be complicated but can be used to reduce an inheritance tax bill and give you control over how and when your assets are passed to future generations. We may look at the use of trusts in a future edition.

APRIL SPECIAL OFFER

For a free initial appraisal of your exposure to IHT, contact Alfie O'Dell in our FK tax team or Lorna Dias in GKP.

Inheritance tax: Benefits and banana skins

Inheritance tax is a complicated area, but with the right advice you can ensure the best outcome for you and your family. At Foxley Kingham and GKP we have years of experience dealing with issues arising from inheritance tax. Alfie O'Dell discusses some of the most common issues our clients face.

Inheritance tax – personal

Tax free gift

There is no tax payable on a cash gift to a family member as long as you live for at least seven years after the gift has been given. However, if you do not live the required seven years the gift may be liable to inheritance tax. The tax will be calculated on a sliding scale.

This can be useful forward planning if you are in good health, have surplus funds and, for example, want to help children or grandchildren to get onto the property ladder or bolster their pensions.

Passing on a property

If you wish to gift your children a property, no inheritance tax is payable under the seven year rule as detailed above, but you may find yourself with an unwanted capital gains or stamp duty liability. There is no relief from capital gains for gifts (unless it is a business asset) and stamp duty would be due on any outstanding mortgage on the property. However, with careful planning, it is still possible to gift property in a tax efficient manner by using a trust.

Gifts to charity

There is no inheritance tax to pay on gifts or bequests to charity, and if you leave more than 10% of your net estate to charity you may qualify for a reduced inheritance tax rate of 36%.

Inheritance tax – business

Business Property Relief

If you run your own business, chances are it may qualify for Business Property Relief, (BPR) an important relief that means the value of the business is relieved from the charge to inheritance tax, either partially or completely. Usually you can get 100% Business Property Relief on a personal business or shares

in an unquoted company, and 50% BPR on land, buildings or machinery owned personally and used in a company or partnership. However, there are a number of conditions, so it is important not to fall foul of these and lose the benefit of BPR.

What kind of business qualifies?

Businesses have to be trading companies to qualify for BPR. Investment companies (including property investment companies as described in the last edition of *ProActivity*) won't qualify as trading companies and incorporating your property portfolio won't automatically remove it from the grip of inheritance tax.

You also need to be careful if the business is carrying large cash balances as this could be challenged by HMRC as to whether this is an investment rather than trading activity. If large cash balances are present, you need to document why they are being held. For example, are they to provide a reserve or buffer in turbulent economic times? Are they savings towards future commercial property, or to provide capital for new business lines or developments?

Other BPR restrictions

Relief only applies if you have owned the business or asset for at least two years and BPR can't be claimed if the business is in the process of being sold. Whilst this may seem straightforward enough, some shareholders agreements have clauses that give business partners an automatic right to buy shares in the event of death. If the clause is binding it constitutes a sale, and BPR is lost. However, this can be avoided by the careful use of options rather than a binding clause.

When incorporating, a common strategy is to leave owned premises as owned personally, particularly if it is mortgaged and including it in the incorporation could prove expensive and problematical.

Just be aware that if the property is then rented to the company for a full market rent, (as is commonly required by the lender) it is an investment asset not an asset used by a business and so will not qualify for BPR.



Alfie O'Dell is part of the tax team at Foxley Kingham



Inheritance tax and your home

Leaving the family home to loved ones is something that a great deal of us plan to do. However, there are significant inheritance tax issues that come with such a bequest. In many cases, much of the value of an estate is tied up in the home and therefore it is difficult to make the gift tax efficient. If you remain in the family home, you and your family will not qualify for any inheritance tax relief on the value of the property. And if you give it away, you cannot remain in the home.

One option could be to gift the home to your loved ones then live in the home while paying market rent to the new owners, although this could require significant financial resources.

Another option could be to use the property to raise equity release finance, then give the money to your beneficiaries. In this instance you must live for seven years to avoid inheritance tax. However, this form of financial management will not sit comfortably with everyone.

Residence nil-rate band

An additional residence related nil-rate band is being phased in that could ultimately increase a personal inheritance tax threshold by up to £175,000 in 2020/21. The extra band is per person, and as with the ordinary nil-rate band, spouses would benefit from two allowances, transferring any unused portion between them.

Nil-rate bands in practice

Mr A died in January 2018 when he jointly held assets with his wife, Mrs A. The assets consisted of a family home worth £500,000 and other assets worth £500,000.

Mr A passed all his assets to Mrs A on his death. As transfers between spouses are exempt, there is no inheritance tax due and his nil-rate and residence nil-rate bands can be carried forward to be used by Mrs A.

In December 2020 Mrs A dies, leaving all her assets to her daughter, Miss A. The family home and other assets by now have both increased by £250,000 each, with the total estate now valued at £1,500,000. Because Mrs A owned a qualifying property on her death, the new residence nil-rate band is available (£175,000 in 2020-21) in addition to the ordinary nil-rate band (£325,000). As her husband transferred all his assets to her on his death, his unused bands are also available.

The estate is therefore entitled to £1 million of nil-rate band, meaning only £500,000 of her assets become chargeable to inheritance tax at a rate of 40%. In this example the new residence nil-rate band has saved inheritance tax to the amount of £140,000 (£175,000 x 2 x 40%).



Tax tip: It is important to note the residence nil-rate band is limited to the value of the property. For instance, if in the previous example the family home had a value of £300,000, the amount of residence nil rate band would be restricted to £300,000.

Already downsized? All is not lost

If someone has already downsized or sold the family home, for example to cover care home costs, they can still benefit from the new band the property sold would have had, had the individual still owned it at point of death and the downsized property or assets form part of the estate being passed onto a direct descendant.

0%

Residence nil-rate band

Conditions: the property is left to your children or grandchildren and your total estate (including any business value) is worth less than £2m.

PHASE-IN:

2017-18 - £100,000

2018-19 - £125,000

2019-20 - £150,000

2020-21 - £175,000





POST BREXIT BUSINESS RESOURCES

No matter what the outcome of the Brexit negotiations within the UK and the EU, we will all have to adapt to the new economic and political landscape. There is no question that Brexit will mean significant change, but some of the most visible initial developments for business will in exports and imports to and from the EU. However, there is help and guidance available for those facing these challenges.

Advice for importers and exporters

HMRC has issued a range of guidance and step-by-step guides for businesses trading with EU and the rest of the world at <https://www.gov.uk/government/publications/partnership-pack-preparing-for-a-no-deal-eu-exit/communication-resources>.

Customs declarations – actions required

If the UK leaves the EU without a deal, customs controls will apply for importing and exporting between the UK and EU, and businesses need to have an Economic Operator Registration Identification (EORI) number

- If you don't have an EORI number, register for one at www.gov.uk/hmrc/get-eori
- If you already have a UK EORI, which is a twelve-digit number beginning with the prefix 'GB', make sure you have it to hand to use for UK-EU trade, and take steps so you are ready to complete customs processes on your UK-EU trade
- If you already have an EU EORI number (which will be a number beginning with a different country prefix, such as 'IE' or 'FR') you do not need to register for a UK EORI number yet; HMRC will continue to recognise your EU EORI number for a temporary period, and will provide further information about moving to a UK EORI number shortly
- If you are not used to dealing with customs processes the easiest solution is to find a customs agent to manage the process, if you decide to do it yourself ensure you are trained and have appropriate IT and systems in place. The Bedfordshire Chamber of Commerce can aid members with international trade requirements.

Importing from the EU – action required

HMRC is introducing new Transitional Simplified Procedures (TSP) for businesses established in the UK, to make importing from the EU as easy as possible for the initial period after the UK leaves the EU, should there be no deal.

If signed up for TSP, businesses will be able to import goods into the UK from the EU without having to make a full customs declaration at the border and be able to postpone paying any import duties. VAT will be accounted for on your VAT return. Sign up for TSP online at www.gov.uk/hmrc/eu-simple-importing. You'll need an EORI number to do this.

Customs Facilitations

Customs facilitations are simplifications designed to make customs easier and, in the case of special procedures or deferring duty, improve your cash flow. To find out how your authorisation to use customs facilitations is affected go to www.gov.uk/hmrc/customs-authorisation-changes

Other related areas

Further information on moving goods using common transit convention (CTC), export declarations, accounting for import VAT, and EU refunds is available. To view the full letter and other information visit <https://www.gov.uk/government/publications/letters-on-no-deal-brexit-advice-for-businesses-trading-with-the-eu-and-or-the-rest-of-the-world>

British Chambers of Commerce offer Brexit support

British Chambers of Commerce have been working together to provide advice and support for business communities trying to navigate the challenges caused by Brexit.

The Chamber Network is focused on the practicalities of Brexit and it has compiled a list of useful resources to help firms plan for change. More details can be found at

www.britishchambers.org.uk/page/brexit-hub

Post Brexit Panic?

The future is uncertain, but at Foxley Kingham and GKP we can support your business in a range of ways, no matter what happens with the UK's relationship with the EU.

We will work with you to ensure that your financial affairs are in optimal shape, and advise you on any changes to financial regulations. For more information on how we can help, please contact us.

Spring Statement 2019



The chancellor Philip Hammond was faced with the unenviable task of delivering his Spring Statement in the midst of the political maelstrom of Brexit. Although Mr Hammond insisted that the economy was 'remarkably robust', he warned that a potential no-deal scenario would put public finances at risk and could cause significant disruption to the UK economy.

Despite an understandable reluctance to make significant changes, the chancellor did make a number of announcements. There is to be a £26.6 billion post-Brexit 'deal dividend' to help boost the economy. There will also be a full spending review that will conclude at time of the 2019 Autumn Budget.

The chancellor's statement also confirmed that the government will apply a 'light touch' approach to penalties under its new Making Tax Digital regime (see page 6); and promised to take action on late payments, including requiring company audit committees to review payment practices and report on them in their annual accounts. The government has pledged to invest in the UK's physical and digital infrastructure, as well as technology, housing and the environment. The £700m reforms for business apprenticeships previously announced in the 2018 Autumn Budget will also be brought forward.

National Living Wage

The National Living Wage has increased by up to 5.4%.

	April 2018	April 2019 (current rate)
25 and over	£7.83	£8.21
21 to 24	£7.38	£7.70
18 to 20	£5.90	£6.15
Under 18	£4.20	£4.35
Apprentice	£3.70	£3.90

Workplace pension

Contributions increase to a total of 8%, 5% from the employee and 3% from the employer.

Income tax

The UK personal allowance, tax rates and bands for 2019/20 were announced by the Chancellor in the 2018 Autumn Budget. The income tax rates and bands applying from 6 April 2019 in England and Northern Ireland are outlined below:

Band (£)	Rate (%)
1-12,500	Nil
12,500 - 37,500	20
37,501 - 150,000	40
Over 150,000	45
Starting rate for savings	Nil
Starting rate limit for savings	£5,000

Savings income allowance

Not available if the taxable non-savings income exceeds the starting rate band. £1,000 of savings income for basic rate taxpayers (£500 for higher rate) may be tax-free.

Dividend income

Dividend ordinary rate	7.5%
Dividend upper rate	32.5%
Dividend additional rate	38.1%

The first £2,000 of dividends are tax-free.

Other measures in brief

Increase in compulsory employer pension contributions

Employers will be required to contribute at least 3% on the qualifying pensionable earnings for eligible jobholders.

Employer-provided cars

There was a 2% increase in the percentage applied by each CO₂ emissions band in 2018/19. For 2019/20 the rates will increase by a further 3%.

Apprenticeship Levy

Co-investment rate will be halved from 10% to 5%, and the amount employers can transfer to their supply chains would increase to 25% from April 2019.

National Living Wage

There will be a review of the latest international evidence on the impact of minimum wages that will inform future National Living Wage policy after 2020.

Anti-avoidance: R&D tax relief

The government will publish a consultation on the prevention of abuse of the R&D tax relief for SMEs.

Insurance Premium Tax (IPT)

There will be a call for evidence on where improvements can be made to ensure that IPT operates fairly and efficiently.

Off-payroll working in the private sector

A consultation paper has been published on the extension of the changes to the off-payroll rules (commonly known as IR35). The rules now include the private sector and the consultation aims to clarify the law for businesses and workers.

Tax simplification

Following on from the recommendations of the Office of Tax Simplification, the government will publish a call for evidence on the simplification and improvement of the VAT Partial Exemption regime and the Capital Goods Scheme.



UPDATE MAKING TAX DIGITAL

There's been a lot of MTD activity since our last edition. By now all clients with VAT-able turnover above £85,000 and who must abide by MTD regulations this year should have been contacted by us. If you believe that you should be adhering to MTD and you haven't yet heard from one of our team, please get in touch.

We are busy upgrading clients with SAGE to the latest version and migrating those on manual records to Xero or SAGE Online to ensure they will be compliant. This will continue over the next few months. We will then make arrangements with clients who will be affected by MTD in the future.

New for Spring

The government used the Spring Statement on 13 March 2019 to confirm two things about the timing of Making Tax Digital (MTD):

- MTD for VAT will go ahead as planned from April 2019
- MTD will not be made mandatory for any other taxes or businesses in 2020

The confirmation from the chancellor that MTD will not be mandated for income or corporation tax, and that MTD for VAT will not be extended to all VAT-registered businesses until at least 2021, will reassure agents and businesses. It will also allow time for a more measured approach to implementation, additional testing, and the delivery of EU exit responsibilities.

MTD IMPORTANT INFO

If your turnover is below £85,000pa on 1 April 2019 but exceeds it in later months, you must follow the MTD rules from your next return period

If your turnover drops below £85,000pa after 1 April 2019 you are still required to keep digital records and file VAT returns using compatible software

Deferment: those eligible for a 6 month deferral until October 2019 include trusts, non-corporate not-for-profits, VAT groups, some public sector entities, traders based overseas, those making payments on account and annual accounting scheme users

Compatible software can comprise a number of programmes if they are digitally linked. For example, your sales information may be kept in one software programme and your VAT records are maintained and submitted through another software programme (e.g. Xero)

Accepted digital links include CSV exports and imports, as well as XML files and API transfers, the important thing is that the records should not be manually altered. A 'soft landing' is in place for the first year before digital links become mandatory

Calculations can be made outside the software, for example partial exemptions, but must be input into the compliant software

There has also been clarification of what records must be kept, how to deal with mixed rate supplies, or use of agents, special schemes such as flat rate, retail or margin schemes. For more information, please contact us:

The Making Tax Digital Team: (from left to right) Sam Brown, Becky Rowley, Helen Spokes, Donna French



MTD for VAT: Actions required

Once you have your MTD compliant software in place you must register online with HMRC. Once signed up, VAT returns MUST be submitted using MTD compliant software and VAT online services can no longer be accessed. If you pay VAT by direct debit allow at least 15 working days before your VAT submission.

STEP 1 Sign up online here <https://www.gov.uk/guidance/sign-up-for-making-tax-digital-for-vat>. You will need your gateway account and VAT number. Do this in plenty of time as it can take HMRC up to 72 hours to respond.

STEP 2 Ensure your gateway registration details are input into your MTD compliant software to enable it to submit future VAT returns.

We are still holding free information sessions for MTD. More information can be found on page 8.

FK Anniversary Foundation goes out with a bang!



We are absolutely delighted to announce that we have raised £56,123 for local charities to celebrate the 50th anniversary of Foxley Kington.

The Foxley Kington Anniversary Foundation has organised over 20 fundraising events, from skydiving and football matches to pamper nights and bake sales. Our efforts culminated in a closing event at Putteridge Bury on 14th March where we were honoured to be joined by all our charity partners. It was a privilege to hear from Sarah Grimes from Autism Bedfordshire and Hazel Mellon from Tokko as they outlined the impact that our fundraising will have on our local community. We also enjoyed speeches from founder partner John Kington (pictured) and members of the Foxley Kington team who were heavily involved in the fundraising.

Paul Bithrey, director at Foxley Kington, said: "When we embarked on our challenge to mark our 50th Anniversary by raising £50,000 for local charities, we couldn't have anticipated how committed our employees and clients would be to helping us reach this goal. They have thrown themselves into many, many adventures over the year to give back to our local community. We are forever grateful to our supportive clients and employees, to their family and friends for their dedication and contributions. It really has been a very happy 50th birthday year."

The success of the Foxley Kington Anniversary Foundation has inspired us to continue our fundraising, albeit in a slightly different form. The firm has decided to select a theme each year and raise money for associated local charities. Following on from a stirring speech from Daniel Douglas from Luton Town Football Club Community Trust, we are pleased to announce that 'Youth Engagement' will be our theme for 2019. Selected charities will be announced in May.

Once again, we would like to thank all of our clients, our friends, and families for supporting the Anniversary Foundation. We can think of no better way to celebrate 50 years of Foxley Kington than to help our community in this way.



FUNDRAISING HIGHLIGHTS INCLUDED:

- A charity football tournament with ten local businesses organised in partnership with Luton Town FC Community Trust
- A 16-strong team entry to the Tough Mudder
- Eleven cyclists pedaling their way from London to Windsor
- An Anniversary Dinner at Offley Place, attended by 170 local business people
- A murder mystery evening at Putteridge Bury

Watch out...

for a peleton of Foxley Kington jerseys on the 16th of June as we take part in the London to Brighton Bike Ride as part of our 2019 fundraising efforts.



We are delighted to announce that our fundraising theme for 2019 is **Youth Engagement**. For more information please contact anniversaryfoundation@fkca.co.uk

Happy trails for Chris Howe, director at Foxley Kingham

After 30 years Chris Howe is retiring from Foxley Kingham. Chris has made a significant contribution to the growth of the firm and, as one of the two directors of the Medical Services department, he has developed a team that now serves doctors across the south of England.

Chris is looking forward to his retirement when he plans to make more time for his campervan travels, tennis, and mountain biking, as well as playing his guitar. And although retirement beckons he will be still be available for his clients on an ad hoc basis for a year.

We would like to thank Chris for his commitment to Foxley Kingham and wish him a long and happy retirement!



Zeeshan Hussain will assume the role of director in the Medical Services department. Zeeshan has worked with the firm for 15 years as a specialist medical manager and will be joining the board of directors from April 2019.

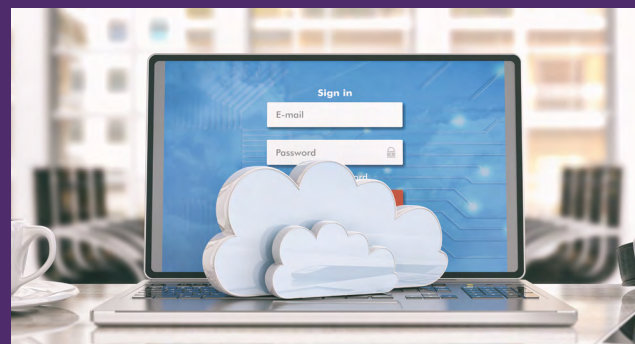


CONGRATULATIONS

to Sarah Robertson, our fantastic administration manager who celebrated 30 years with Foxley Kingham on 1st April 2019.



Disclaimer: Please note that we cannot be held responsible in any way for any consequence arising from the information provided in this newsletter. Whilst every effort is made to ensure that accuracy of the content of all FK publications, no decisions should be taken on the basis of information given without reference to specialist advice.



MAKING TAX DIGITAL DROP-IN SESSIONS

All our clients are very welcome to attend one of our free drop-in information sessions on Making Tax Digital. These sessions are designed to answer any questions about the new HMRC regulations and to let you know how we can help.

The next sessions will be at:

25th April 2019 2.00pm – 5.00pm
16th May 2019 2.00pm – 5.00pm

Both sessions will be held at Foxley Kingham, Prospero House, 46-48 Rothesay Road, Luton, LU1 1QZ.

Get FK online

Please visit the Foxley Kingham website www.fkca.co.uk to access information about Foxley Kingham's services and specialist sectors, as well as a wealth of online resources.

You can browse in-depth analysis from our specialists, and dip in for valuable bite-sized news and updates. We constantly review our content, adding helpful information, articles, blogs, newsletters, company announcements and client successes.

We can also be found on Twitter [@FkcaLtd](https://twitter.com/FkcaLtd) and on LinkedIn at www.linkedin.com/company/foxley-kingham/

Breaking news! The new GKP website will be launched in the next few months. Keep an eye out for an exciting new look at gkp.co.uk

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