RowlandHall

CHARTERED CERTIFIED ACCOUNTANTS

# Your Essential Tax Kit – March 2026

At Rowland Hall we are committed to keeping our clients up to date with the latest developments and servicing your business, accounts and taxation needs.

Please read this guide to find out more.

**Including: -**

- **A summary of Rowland Hall Services Available to you**
- **Self-Assessment Late Filing Penalty Regime and PAYE Code numbers**
- **Planning for Retirement and Pension Information**
- **Capital Gains Tax**
- **Inheritance Tax and Trusts**
- **Income Tax Charges on Pre-Owned Assets**
- **Property Investment – Buy to Let**
- **Taxation of the Family – Including Child Benefit Charges**
- **The Statutory Residence Test**
- **Update and Alternative Tax Payment Methods**

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# 1. ROWLAND HALL

Are you aware of all of the services that we provide?

In addition to the more traditional services, here are some examples of other services which may be of interest to you:-

## Estate and Probate Services

In addition to providing Estate and Inheritance Tax planning services, Rowland Hall provide an efficient and cost effective service to assist with the administration of Estates and Rowland Hall Probate Services Limited can assist with any necessary Inheritance Tax Returns and/or Probate Application forms.

It is not always necessary or cost effective to engage a Solicitor to carry out these services, which essentially involve the completion of tax related forms.

In the unfortunate event of you having to assist family and friends with Probate matters you should consider approaching us first for advice.

## Personal tax planning

Today, more and more emphasis is being put on taxpayers' individual responsibilities and everyone who is subject to taxation needs professional advice and support if they are to optimise their tax position and ensure they meet the compliance requirements. Our specialist tax team can provide you with year-round advice on all aspects of personal taxation.

## Payroll

**All** employers are now required to submit their annual PAYE Returns to H M Revenue and Customs by electronic means.

Running a payroll can be time consuming and complicated and divert resources from the core activities of your business. We provide a bureau outsourcing service to many clients which will relieve your pressure and provide a cost effective solution. We are able to provide a complete service, regardless of the size or complexity of your business, or simply provide support when needed.

Since 6th April 2013, all Employers have had to comply with the regular submission of payroll information to H M Revenue and Customs under the “Real Time Information” regulations. We are able offer a full payroll service.

If you wish to discuss this matter, please do not hesitate to contact us.

# Bookkeeping

We can help you with all your general bookkeeping requirements, either at your offices or at our office. You may require help to write up books or need us to add the finishing touches to information on bookkeeping systems in order to create your own management information. If you do not employ a bookkeeper then we can provide you with a named dedicated individual to suit your business needs.

# VAT

We would take this opportunity to remind you of the VAT services that we offer. For VAT Returns we are able to assist you as follows:-

1. A complete VAT Return completion and submission service, where we will prepare your VAT Return from your records and forward the submission details to you for approval and advise you of the payment/repayment arising before submission. This service will continue following the introduction of Making Tax Digital for VAT on 1st April 2019

2. You would prepare the details manually as you do at present and provide us with a summary of the VAT Return box entries. We would then process the details and submit the VAT Return on your behalf. Due to the introduction of the Making Tax Digital for VAT from 1st April 2019, this method of dealing with your VAT Returns may need to be changed and we are able to offer advice to you in relation to compliance with the new legislation.

If you wish for us to assist you in relation to these matters, kindly contact the Partner responsible for your case to discuss further.

A full summary of the full range of services that we provide can be found on our website www.rowlandhall.co.uk

# 2. IMPORTANT INFORMATION

## PENALTIES FOR LATE TAX RETURNS

The penalty regime introduced in 2011 will continue to apply in relation to the submission of 2025 Tax Returns and the initial £100 penalty will still be charged and will have to be paid even when there are no outstanding tax liabilities. In addition to the initial charge there will be series of additional cash penalties as follows:-

**If the Return is over 3 months late a daily penalty of £10 per day will be charged up to a total of £900.**

**If the Return is still outstanding after 6 months an additional penalty of £300 is charged or 5% of the tax due if this is higher.**

**If the Return is still outstanding after 12 months a further penalty of £300 is charged or a further 5% of the tax due if this is higher.**

It is therefore important to ensure that your Tax Return is with HM Revenue & Customs by the due date and we would ask you to provide us with the information requested for this as soon as possible.

Please be aware that we are particularly busy in December and January each year and if you delay providing us with your Tax Return information until December or January, we cannot guarantee that the Return will be completed in time to meet the 31st January filing deadline. Information coming into the office during December and January will be dealt with on a first in, first out basis.

## PENALTIES FOR MAKING TAX DIGITAL FOR INCOME TAX

Moving forwards, a new points based penalty regime will be in place making tax digital whereby each late submission will accrue a penalty point. Once a taxpayer reaches 4 penalty points a £200 penalty will be levied and each subsequent late submission will attract a £200 penalty also.

HM Revenue and Customs have indicated that there is a soft landing period for MTD penalties and that none will be issued during the first 12 months of registration.

# TAX CODES

If you are employed or receive a pension you should have recently received from HM Revenue & Customs a notice of tax coding which provides details of the tax code that is to be operated against your salary or pension for the new tax year commencing on 6th April. Subsequent amendments to the coding may follow later in the year.

We had in the past received copies of your tax coding notices as your tax agents for checking from H M Revenue and Customs. Since January 2011 HM Revenue & Customs have not issued copies to Accountants.

It is extremely important that your tax code is correct to ensure that you pay the right amount of tax as errors in tax codes can result in unexpected and unwelcome liabilities arising. **We would therefore ask you to forward your coding notices to us to review when received.**

We would also mention that a high percentage of problems with tax coding do arise for those with pensions, particularly where the person concerned is not professionally represented. If you do have a friend or family member that is experiencing problems with the Revenue we would be pleased to assist them if required.

# 3. PLANNING FOR RETIREMENT

Whilst you may have given thought to pension provision to see you through retirement or even succession planning if you are in business, there are nevertheless a number of non-tax and non-accounting issues that should be considered.

## LEGAL ISSUES

- Do you have wills in place? Are these reviewed regularly?
- Have you reviewed best method of property ownership?
- Have you got Powers of Attorney in place in case of incapacity or illness?
- Have you considered protection of assets inside Trusts?

## LONG TERM HEALTH CARE

- In the event of needing long term residential healthcare have you considered how to pay for this?
- Would you have sufficient resources to self- fund or are you looking for local authority support?
- Are you aware of the highly complex means-assessment rules if local authority support is required?
- Are you aware that under the Deprivation of Assets rules assets passed to the next generation can be “clawed-back” as contribution towards local authority healthcare?

We are keen at Rowland Hall to ensure that you receive expert help in all relevant areas. If you have answered “no” to any or some of the above then you may well benefit from a discussion with an expert in these fields.

We work closely with other professionals to ensure that our clients receive the best “all-round” advice possible. We would be happy to make referrals if you would like to have a review of those areas.

## ROWLAND HALL CHARTERED CERTIFIED ACCOUNTANTS

# 4. PENSIONS – TAX RELIEF

Personal Pensions are common types of 'registered pension schemes' which allow members to obtain tax relief on contributions into the scheme and tax free growth of the fund within limits. We consider the rules here. At Rowland Hall, we provide advice on all taxes in the Essex area and can help you to consider maximising tax relief on pension provision.

## Types of pension schemes

There are two broad types of pension schemes from which an individual may eventually be in receipt of a pension:

- Workplace pension schemes
- Personal Pension schemes.

A Workplace pension scheme may either be a defined benefit scheme or a money purchase scheme.

A defined benefit scheme pays a retirement income based on final salary and years of service, while a money purchase scheme instead reflects the amount invested and the underlying investment fund performance.

The number of defined benefit pension schemes has declined in recent years in part due to the regulations imposed upon the schemes and the cost of such schemes to the employer. The majority remaining are in the public sector. Each scheme sets its own rules within the permitted legislation so professional advice is always recommended when dealing with such schemes. Detailed aspects are therefore not covered in this fact sheet.

All employers are required to provide a workplace pension scheme due to auto-enrolment legislation and these are mainly money purchase schemes. A separate factsheet on auto- enrolment is available.

A Personal Pension scheme is a privately funded pension plan but can also be funded by an employer. These are also money purchase schemes. Self-employed individuals can have a Personal Pension.

To benefit from tax privileges all pension schemes must be registered with HMRC. For a Personal Pension scheme, registration will be organised by the pension provider.

We set out below the tax reliefs available to members of a money purchase Workplace scheme or a Personal Pension scheme.

# What are the tax breaks and controls on the tax breaks?

An individual is entitled to make contributions and receive tax relief on the higher of £3,600 or 100% of earnings in any given tax year. However, tax relief will be restricted for contributions in excess of the annual allowance.

A money purchase scheme allows the member to obtain tax relief on contributions into the scheme and tax-free growth of the fund. If an employer contributes to the scheme on behalf of an employee, there is generally no tax charge on the member and the employer will obtain a deduction from their taxable profits.

Under the current pensions regime, there are no limits on either the maximum amount which can be invested in a pension scheme or on the total value within pension funds. However, there are controls which limit the tax reliefs available. Firstly, there are limits on the amount of tax relief available to the member in making the contributions to or accruing the benefits in their pension schemes. Secondly, there are tax free limits in accessing those benefits.

Each individual has an annual allowance which sets the maximum amount which can be invested with tax relief into a pension fund. The allowance applies to the combined contributions of an employee and employer (where relevant). Amounts in excess of this allowance trigger a charge.

When benefits are accessed, there is a lump sum and death benefit allowance which limits the amount which can be accessed tax free depending on various circumstances.

# Key features of money purchase pensions

- Contributions are invested for long-term growth up to the selected retirement age.
- At retirement which may be any time from the age of 55 the accumulated fund is generally turned into retirement benefits - an income and a tax-free lump sum.
- Personal contributions are generally payable net of basic rate tax relief, leaving the provider to claim the tax back from HMRC.
- Higher and additional rate relief is given as a reduction in the taxpayer's tax bill. This is normally dealt with by claiming tax relief through the self assessment system.

- Employer contributions are payable gross direct to the pension provider.

## Persons eligible

All UK residents may have a money purchase pension. This includes non-taxpayers such as children and non-earning adults. However, they will only be entitled to tax relief on gross contributions of up to £3,600 per annum.

# Relief for individuals' contributions

An individual is entitled to make contributions and receive tax relief on the higher of £3,600 or 100% of earnings in any given tax year. However tax relief will generally be restricted for contributions in excess of the annual allowance.

## Methods of giving tax relief

Tax relief on contributions is given at the individual's marginal rate of tax.

An individual may obtain tax relief on contributions made to a money purchase scheme in one of three ways:

1. A net of basic rate tax contribution is paid by the individual with higher or additional rate relief claimed through the self assessment system.
2. A net of basic rate tax contribution is deducted from net pay of the employee. The contribution is then paid over by the employer to the scheme. Higher or additional rate relief is claimed through the self assessment system.
3. A gross contribution is deducted from the employee's gross salary and paid by the employer to the scheme. This lowers the employee's PAYE tax bill and no further action is needed by taxpayers as the correct relief has been given through the payroll.

In the first two ways the basic rate is claimed back from HMRC by the pension provider.

One effective route for an employee to consider may be to enter a salary sacrifice arrangement with an employer. The employer will make a gross contribution to the pension provider and the employee's gross salary is reduced. This will give the employee full income tax relief (by reducing PAYE) but also reduces National Insurance contributions.

There are special rules if contributions are made to a retirement annuity contract. (These are old schemes started before the introduction of personal pensions.)

# The annual allowance

The annual allowance was increased to £60,000 from 6 April 2023. Previously it had been £40,000.

Any contributions in excess of the £60,000 annual allowance are potentially charged to tax on the individual as their top slice of income. Contributions include contributions made by an employer.

The stated purpose of the charging regime is to discourage pension saving in tax registered pensions beyond the annual allowance. Most individuals and employers actively seek to restrict pension saving so as to not exceed the annual allowance, rather than fall within the charging regime.

## Lower annual allowance for those with high levels of income

Individuals with high levels of income may have their annual allowance reduced to limit the tax reliefs they obtain. This is known as tapering the allowance and applies where both their 'adjusted' and 'threshold' income exceeds certain levels. Professional advice should be sought as to the detailed meaning of these terms.

However, 'threshold' income means, broadly, a person's taxable income and 'adjusted' income is' threshold' income plus pension contributions made by an employer.

Currently the threshold income level is £200,000 and the adjusted income threshold £260,000. For every £2 of adjusted income over the adjusted income threshold, an individual's annual allowance is reduced by £1, down to a minimum amount. The minimum amount is currently £10,000.

# Example

Victoria has adjusted income of £280,000 and threshold income of £220,000. Her annual allowance will therefore be tapered. As she has £20,000 excess income above the £260,000 limit she will lose £10,000 (£1 for every £2 excess)of her annual allowance. Her annual allowance is therefore £50,000.

# The rate of charge if annual allowance is exceeded

The charge is levied on the excess above the annual allowance at the appropriate rate in respect of the total pension savings. There is no blanket exemption from this charge in the year that benefits are taken. There are, however, exemptions from the charge in the case of serious ill health as well as death.

The appropriate rate will broadly be the top rate of income tax that you pay on your income.

## Example

Anthony, who is employed, has income (before pensions tax relief) of £200,000 in 2025/26. He makes personal pension contributions of £56,000 net in March 2026. He has made similar contributions in the previous three tax years.

He will be entitled to a maximum £60,000 annual allowance for 2025/26. The charge will be:

| Details | Amount |
|---|---|
| Gross pension contribution | £70,000 |
| Less annual allowance | (£60,000) |
| Excess | £10,000 taxable at 45% = £4,500 |

Anthony will have had tax relief on his pension contributions of £31,500 (£70,000 x 45%) and now effectively has £4,500 clawed back. The tax adjustments will be made as part of the self assessment tax return process.

# Carry forward of unused annual allowance

A carry forward of unused annual allowance is available for three years. This is useful for individuals who may have uncertain income streams or in situations where the 'owner managed business' company employer has fluctuating profits, allowing higher contributions to be made in a given tax year where there is brought forward capacity available.

For 2025/26, the unused allowance that can be brought forward is from 2022/23, 2023/24 and 2024/25, provided the individual was a member of a registered pension

scheme at some time during the relevant brought forward tax year. Note however, that the annual allowance available for 2022/23 was only £40,000.

Unused annual allowance carried forward is the amount by which the annual allowance for that tax year exceeded the total pension savings for that tax year.

The annual allowance for the current tax year is always used before any unused allowance brought forward. The earliest year unused allowance is then used before a later year.

## Example

Assume it is March 2026. Bob is a self employed builder. In the previous three years Bob has made contributions of £30,000, £10,000 and £30,000 to his pension scheme. As he has not used all of the annual allowance in earlier years, he has £90,000 unused annual allowance that he can carry forward to 2025/26.

Together with the new increased current year annual allowance of £60,000, this means that Bob can make a contribution of £150,000 in 2024/25 without having to pay any extra tax charge.

# The lump sum and death benefit allowance (LSDBA)

The annual allowance rules control the level of tax relief on contributions to money purchase schemes and accrued benefits in defined benefit schemes whilst growing your pensions tax savings. The LSDBA determines the amount of benefits which can be accessed tax free depending on set circumstances.

Individuals who have money purchase schemes and some defined benefit schemes can take a tax free lump sum when accessing pension benefits. Generally,this is limited to 25% of total fund value, provided it does not exceed 25% of the LSBDA. The LSBDA is set at £1,073,100 so 25% is a maximum of £268,275. Other pension income extraction is subject to normal income tax rules. Where individuals are permitted to take a higher lump sum, the excess above the limit is subject to income tax.

Certain individuals with pension protection certificates are entitled to higher tax free limits. This is a complex area and specialist professional advice should always be taken.

In certain situations, the whole of the LSDBA can be accessed tax free. This occurs for example where an individual dies before the age of 75 or qualifies due to serious ill health.

# Accessing pension benefits from money purchase schemes

Individuals have flexibility to choose how to access their pension funds from the age of 55.

The options include:

- a tax-free lump sum of 25% of fund value (as detailed above)
- purchase of an annuity with the remaining fund, or
- income drawdown (see below for options available regarding flexi access accounts and lump sum payments).

An annuity is taxable income in the year of receipt. Similarly any monies received from the income drawdown fund are taxable income in the year of receipt.

# Flexi access accounts and lump sums

Where a lump sum and annuity are not taken access to the fund can be achieved in one of two ways:

- allocation of a pension fund (or part of a pension fund) into a 'flexi-access drawdown account' from which any amount can be taken over whatever period the person decides
- taking a single or series of lump sums from a pension fund (known as an 'uncrystallised funds pension lump sum').

When an allocation of funds into a flexi-access account is made the member typically will take the opportunity of taking a tax free lump sum from the fund.

The person will then decide how much or how little to take from the flexi-access account. Any amounts that are taken will count as taxable income in the year of receipt.

Access to some or all of a pension fund without first allocating to a flexi-access account can be achieved by taking an uncrystallised funds pension lump sum.

The tax effect will be:

- 25% is tax-free (subject to the limit detailed above)
- the remainder is taxable as income.

# Money Purchase Annual Allowance (MPAA)

The government is alive to the possibility that those aged 55 and over could take advantage of the flexibilities by 'recycling' their earned income into pensions and then immediately taking out amounts from their pension funds. Without further controls being put into place an individual could obtain tax relief on the pension contributions but only be taxed on 75% of the funds immediately withdrawn.

A reduced annual allowance therefore applies in certain scenarios to limit the tax relief on contributions. This is known as the MPAA and the allowance is currently £10,000 per tax year, overriding the normal £60,000 annual allowance.

There is no carry forward of any of the MPAA to a later year if it is not used in the year. The main scenarios in which the reduced annual allowance is triggered are if:

- any income is taken from a flexi-access drawdown account, or
- an uncrystallised funds pension lump sum is received.

However just taking a tax-free lump sum when funds are transferred into a flexi-access account will not trigger the MPAA rule.

# 4A. PENSIONS – TAX TREATMENT ON DEATH

Alongside the changes from April 2015 to the access of defined contribution pension funds, significant changes were made to the income tax treatment of pension funds on death. These changes significantly reduced the income tax charges.

This factsheet summarises the current rules for **defined contribution schemes** which may allow a pension fund to pass free of all taxes for both the estate of the deceased and for the beneficiaries of the pension fund.

## IHT and pension funds

Pension death benefits may be subject to inheritance tax (IHT). This will be the case for example if the member has control over who the beneficiaries will be as HMRC will take the view that essentially the death benefits form part of the member's estate for IHT.

Many schemes though do not give members the choice and all death benefits are paid at the discretion of the scheme administrator. This means they will be free of IHT. Of course, the administrator will want to pay out according to the member's wishes so it is important that a member makes a 'letter of wishes' to the pension provider suggesting to whom the funds should be paid.

It is worth noting that if an individual withdraws monies from their pension fund, these now comprise part of their estate and are potentially subject to IHT.

## Changes announced from 6 April 2027

At Autumn Budget 2024, the government announced its intention to include in the IHT estate all unused pension funds and death benefits payable from a pension. This is a significant blow to those hoping to pass on unused funds to their family. If this is of relevance to you please contact us for a review of your options.

## Income tax charges on pension funds

## Deaths under age 75

When an individual dies under the age of 75, their defined contribution pension fund can pass income tax free, whether it is in a drawdown account or untouched to any person. This includes a trust.

The fund can be paid out as a lump sum to a beneficiary or taken out by the beneficiary through a 'flexi-access drawdown account'.

This tax treatment applies to pension funds which do not exceed the Lump Sum and Death Benefit allowance (LSDBA) which is set at £1,073,100. Excess amounts will be chargeable on the beneficiaries when they access the funds at their marginal rate of income tax.

For this beneficial treatment to apply, it is critical that the beneficiary or beneficiaries are designated within two years of the death of the individual otherwise, any lump sum payments made after the two years will be taxed at the recipient's marginal rate of income tax.

# Deaths from age 75

Those aged 75 or over when they die will be able to pass their defined contribution pension fund to any beneficiary who will then be able to draw down on it as income or as a lump sum at their marginal rate of income tax. Alternatively, the benefits can be paid as a lump sum to a trust with a 45% tax charge.

Given the changes to income tax treatment from age 75, it may be appropriate to consider withdrawing and using the tax free cash before reaching that age. This is particularly relevant now that it is also intended to include unused pension funds at death for IHT purposes from 6 April 2027. Specific pensions advice should always be undertaken before undertaking any withdrawals. This advice should be from an FCA regulated financial adviser.

# Tax treatment of inherited annuities

Beneficiaries of individuals who die under the age of 75 with a joint life or guaranteed term annuity are able to receive any future payments from such policies tax free. If the individual dies aged 75 or over beneficiaries can receive payments at their marginal income tax rate. These annuities are generally already within the scope of IHT on the deceased's death.

# 5. CAPITAL GAINS TAX

We consider the taxation of capital gains and outline the reliefs available. We, at Rowland Hall, can provide taxation advice to ensure that maximum opportunity is taken of the reliefs available for capital gains tax.

A capital gain arises when certain capital (or 'chargeable') assets are sold at a profit. The gain is the sale proceeds (net of selling costs) less the purchase price (including acquisition costs).

## What are the main features of the current system?

- Capital gains tax (CGT) is charged at the rate of 18% on gains (including any held over gains coming into charge) where net total taxable gains and income is below the income tax basic rate band threshold. This rate was 10% for disposals made before 30 October 2024. Gains or any parts of gains above the basic rate band are charged at 24% (20% for disposals before 30 October 2024) with a few exceptions which are considered in the 'Exceptions to the CGT rates section' below.
- Business asset disposal relief (formerly known as Entrepreneurs' Relief) or Investors' Relief (IR) may be available on certain business disposals.

## Business asset disposal relief (BADR)

BADR may be available for certain business disposals and has the effect of charging the first £1 million of gains qualifying for the relief at an effective rate of 14% for 2025/26 (10% for 2024/25). This rate will increase to 18% for 2026/27.

The relief is available to individuals on the disposal of:

- the whole, or part, of a trading business that is carried on by the individual, either alone or in partnership
- shares in an individual's 'personal company'
- assets used by a business or a company which has ceased within the last three years.

Where an individual makes a qualifying business disposal, relief may also be available on an 'associated disposal'. An 'associated disposal' is a disposal of an asset:

- used in a qualifying company or group of companies of the individual; or
- used in a partnership, where the individual is a partner.

Restrictions on obtaining the relief on an 'associated disposal' are likely to apply in certain specific situations. This includes the common situation where a property is in

personal ownership but is used in an unquoted company or partnership trade in return for a rent. Under BADR the availability of relief is restricted where rent is paid.

## Ownership period of two years

Ownership conditions apply throughout the period up to the date of disposal. For disposals on or after 6 April 2019, the necessary qualifying period of ownership is two years.

## The 5% rule for company shareholders

To qualify for BADR, the company needs to be an individual's 'personal company' where the individual must:

- be a company employee or office holder
- hold at least 5% of the company's ordinary share capital and
- be able to exercise at least 5% of the voting rights.

For disposals on or after 29 October 2018, they must also satisfy one of the following tests:

- a distribution test – an individual is entitled to at least 5% of the company's profit available for distribution to equity holders and 5% of the assets available for distribution to equity holders in a winding up; or
- a proceeds test – an individual is entitled to at least 5% of the proceeds in the event of a disposal of the whole of the ordinary share capital of the company.

# Dilution

From 6 April 2019 those shareholders whose holding in their company is reduced below the normal 5% qualifying level as a result of raising funds for commercial purposes by means of an issue of new shares may still obtain BADR. An election can be made which allows shareholders to crystallise a gain on their shares before the dilution occurs. This would be achieved by treating the shareholding as having been sold and immediately re-purchased at the prevailing market value. The election will have to be made in their tax return for the year in which the dilution takes place. The shareholder may also elect to defer the accrued gain until their shares are actually disposed of.

Careful planning will be required with BADR but if you would like to discuss BADR in detail and how it might affect your business, please do get in touch.

# Investors' Relief (IR)

IR is aimed at external investors (other than certain employees or officers of the company) in unlisted trading companies. To qualify for the 14% CGT rate under 'investors' relief' (increasing from 10% in 2024/25 and to 18% in 2026/27, as for BADR) the following conditions need to be met:

- shares must be newly issued and subscribed for by the individual for new consideration
- be in an unlisted trading company, or an unlisted holding company of a trading group
- have been issued by the company on or after 17 March 2016 and have been held for a period of three years from 6 April 2016
- have been held continuously for a period of three years before disposal.

An individual's qualifying gains for IR are subject to a lifetime cap of £1 million (reduced from £10 million for qualifying disposals made on or after 30 October 2024).

# Share identification rules

All shares of the same class in the same company are treated as forming a single asset, regardless of when they were originally acquired. However, ‘same day’ transactions are matched and there are ‘30 day’ anti-avoidance rules.

## Example

On 15 April 2025 Jeff sold 2000 shares in A plc from his holding of 4000 shares which he had acquired as follows:

- 1000 in January 1990
- 1500 in March 2001
- 1500 in July 2005

Due to significant stock market changes, he decided to purchase 500 shares on 30 April 2025 in the same company.

The disposal of 2000 shares will be matched firstly with the later transaction of 500 shares as it is within the following 30 days and then with 1,500/4,000 (1000+1500+1500) of the single asset pool on an average cost basis.

# CGT annual exemption

Every tax year each individual is allowed to make gains up to the annual exemption without paying any CGT. The annual exemption for 2026/27 is £3,000 (£6,000 in 2023/24 and prior). Consideration should be given to ensuring both spouses/civil partners utilise this facility.

# Exceptions to the CGT rates

The rates of CGT are generally 18% and 24%. However a 32% rate applies for all disposals of carried interest (18% and 28% for 2024/25).

# Other more complex areas

Capital gains can arise in many other situations. Some of these, such as gains on Enterprise Investment Scheme and Venture Capital Trust shares, and deferred gains on share for share or share for loan note exchanges, can be complex. Please talk to us before making any decisions.

# Other reliefs which you may be entitled to

And finally, many existing reliefs continue to be available, such as:

- private residence relief;
- business asset rollover relief, which enables the gain on a business asset to be deferred until a point in the future;
- business asset gift relief, which allows the gain on business assets that are given away to be held over until the assets are disposed of by the donee; and
- any unused allowable losses from previous years, which can be brought forward in order to reduce any gains.

# 5A. CAPITAL GAINS TAX AND THE FAMILY HOME

A valuable relief exists on the sale of the family home but in certain situations careful planning is required to ensure that the relief is obtained. We, at Rowland Hall, can provide taxation advice to ensure that maximum opportunity is taken of principal private residence relief.

The capital gains tax (CGT) exemption for gains made on the sale of your home is one of the most valuable reliefs from which many people benefit during their lifetime. The relief is well known: CGT exemption whatever the level of the capital gain on the sale of any property that has been your main residence. In this factsheet we look at the operation of the relief and consider factors that may cause it to be restricted.

## Several important basic points

Only a property occupied as a residence can qualify for the exemption. An investment property in which you have never lived would not qualify.

The term 'residence' can include outbuildings separate from the main property but this is a difficult area. Please talk to us if this is likely to be relevant to you.

'Occupying' as a residence requires a degree of permanence so that living in a property for say, just two weeks with a view to benefiting from the exemption is unlikely to work.

The exemption includes land that is for 'occupation and enjoyment with the residence as its garden or grounds up to the permitted area'. The permitted area is half a hectare including the site of the property which equates to about 1.25 acres in old money! Larger gardens and grounds may qualify but only if they are appropriate to the size and character of the property and are required for the reasonable enjoyment of it. This can be a difficult test. In a court case the exemption was not given on land of 7.5 hectares attaching to a property. The owner said he needed that land to enjoy the property because he was keen on horses and riding. The courts decided that the owner's subjective liking for horses was irrelevant and, applying an objective test, the land was not needed for the reasonable enjoyment of the property.

## Selling land separately

What if you want to sell off some of your garden for someone else to build on? Will the exemption apply? In simple terms it will if you continue to own the property with the rest of the garden and the total original area was within the half a hectare limit.

Where the total area exceeds half a hectare and some is sold then you would have to show that the part sold was needed for the reasonable enjoyment of the property and this can clearly be difficult if you were prepared to sell it off.

What if on the other hand you sell your house and part of the garden and then at a later date sell the rest of the garden off separately, say for development? Then you will not get the benefit of the exemption on the second sale because the land is no longer part of your main residence at the point of sale.

# More than one residence

It is increasingly common for people to own more than one residence. However an individual can only benefit from the CGT exemption on one property at a time. In the case of a married couple (or civil partnership), there can only be one main residence for both. Where an individual has two (or more) residences then an election can be made to choose which should be the one to benefit from the CGT exemption on sale. Note that the property need not be in the UK to benefit although there are additional restrictions from April 2015 detailed below. Also, foreign tax implications may need to be brought into the equation.

The election must normally be made within two years of the change in the number of residences and the potential consequences of failure to elect are shown in the case study that follows.

Furthermore, the case study demonstrates the beneficial rule that allows CGT exemption for the last nine months of ownership of a property that has at some time been the main residence. Where the owner of the property is in long term care or a disabled person, and meets the necessary conditions, they benefit from a CGT exemption for the last 36 months of ownership.

## Case study

Wayne, an additional rate taxpayer, acquired a home in 2009 in which he lived full-time. In 2013 he bought a second home and divided his time between the two properties.

- Either property may qualify for the exemption as Wayne spends time at each - ie they both count as 'residences'.
- Choosing which property should benefit is not always easy since it depends on which is the more likely to be sold and which is the more likely to show a significant gain. Some crystal ball gazing may be needed!
- The choice of property needs to be made by election to HMRC within two years of acquiring the second home. Missing this time limit means that HMRC will decide on any future sale which property was, as a question of fact, the main residence.

Wayne elects for the second home to be treated as his main residence for CGT purposes. If say in June 202 he sells both properties realising a gain of say £100,000 on the first property and £150,000 on the second property.

The gain on the second property is CGT-free because of the election.

Part of the gain on the first property is exempt. Namely that relating to:

- the four years before the second property was acquired (when the first property was the only residence) and
- the last nine months of ownership will qualify providing the property has been the main residence at some time.

The overall gain on the first property would be time apportioned between the exempt period and the period remaining chargeable.

# Can you claim PPR relief on your property?

A person's residence will not be eligible for Principal Private Residence (PPR) relief for a tax year unless either:

- the person making the disposal was resident in the same country as the property for that tax year, or
- the person spent at least 90 midnights in that property.

The rules apply to both a UK resident disposing of a residence in another country and a non-resident disposing of a UK residence.

# Reporting and payment requirement

It is important to note that from 6 April 2020 those liable to CGT on a residential property disposal must send a new standalone online return to HMRC and make a payment on account of the tax due within 60 days of completion of the sale. These requirements do not apply if the gains are covered by PPR.

# Business use

More and more people work from home these days. Does working from home affect the CGT exemption on sale? The answer is simple - it may do!

Rather more helpfully the basic rule is that the exemption will be denied to the extent that part of your home is used exclusively for business purposes. In many cases of course the business use is not exclusive, your office doubling as a spare bedroom for guests for example, in which case there is not a problem.

Where there is exclusive business use then part of the gain on sale will be chargeable rather than exempt. However, it may well be that you plan to acquire a further property, also with part for business use, in which case the business use element of the gain can be deferred by 'rolling over' the gain against the cost of the new property.

# Residential letting

Prior to 6 April 2020 letting relief gave up to £40,000 (£80,000 for a couple who jointly own the property) to someone letting part or all of a property which was their main residence or was their former main residence at some point in their period of ownership. However under the revised rules letting relief is only available where the owner and tenant share occupancy throughout the period of the let.

# Periods of absence

Certain other periods of absence from your main residence may also qualify for CGT relief if say you have to leave your property to go and work elsewhere in the UK or abroad. The availability of the exemption depends on your circumstances and length of period of absence. Please talk to us if this is relevant for you. We would be delighted to set out the rules as they apply to your particular situation.

# Trusts

The exemption is also available where a property is owned by trustees and occupied by one of the beneficiaries as their main residence.

Until December 2003 it was possible to transfer a property you owned but which was not eligible for CGT main residence relief into a trust for say the benefit of your adult children. Any gain could be deferred using the gift relief provisions. One of your children could then live in the property as their main residence and on sale the exemption would have covered the entire gain.

HMRC decided that this technique was being used as a mechanism to avoid CGT and so blocked the possibility of combining gift relief with the main residence exemption in these circumstances.

# 6. INHERITANCE TAX – A SUMMARY

## Inheritance tax is often called a voluntary tax in that, with planning, the payment of inheritance can be avoided. It is a tax levied on a person's estate when they die and on certain gifts made during an individual's lifetime. We, at Rowland Hall, can provide taxation advice to help you minimise the potential charge to inheritance tax.

Inheritance tax (IHT) is levied on a person's estate when they die, and certain gifts made during an individual's lifetime.

Gifts between UK-domiciled spouses during their lifetime or on death are exempt from IHT. In this factsheet spouse includes married couples and registered civil partners. Most gifts made more than seven years before death will escape tax. Therefore, if you plan in advance, gifts can be made tax-free and result in a substantial tax saving.

We give guidance below on some of the main opportunities for minimising the impact of the tax.

It is however important for you to seek specific professional advice appropriate to your personal circumstances.

# Summary of IHT

## Scope of the tax

When a person dies IHT becomes due on their estate. IHT can also fall due on some lifetime gifts but most are ignored providing the donor survives for seven years after the gift.

The rate of tax on death is 40% and 20% on lifetime transfers where chargeable. Currently, the first £325,000 is chargeable to IHT at 0% and this is known as the nil rate band.

## Residence nil rate band

An additional nil rate band was introduced for deaths on or after 6 April 2017 where an interest in a qualifying residence passes to direct descendants. The amount of relief was initially phased in but is currently £175,000. For many married couples and registered civil partnerships (hereafter referred to as spouses in this factsheet) the relief is effectively doubled as each individual has a main nil rate band and each will also potentially benefit from the residence nil rate band.

The residence nil rate band can only be used in respect of one residential property which does not have to be the main family home but must at some point have been a

residence of the deceased. Restrictions apply where estates (before reliefs) are in excess of £2 million.

Where a person died before 6 April 2017, their estate will not have qualified for the relief and if the first spouse has died since then they may not have used the relief. A surviving spouse may be entitled to an increase in the residence nil rate band if the spouse who died earlier has not used, or was not entitled to use, their full residence nil rate band. In fact this often results in a doubling of the residence nil rate band for the surviving spouse.

# Downsizing

The residence nil rate band may also be available when a person downsizes or ceases to own a home on or after 8 July 2015 where assets of an equivalent value, up to the value of the residence nil rate band, are passed on death to direct descendants.

# Charitable giving

A reduced rate of IHT applies where 10% or more of a deceased's net estate (after deducting IHT exemptions, reliefs and the nil rate band) is left to charity. In those cases the 40% rate will be reduced to 36%.

# IHT on lifetime gifts

Lifetime gifts fall into one of three categories:

- a transfer to a company or a trust (except a disabled trust) is immediately chargeable
- exempt gifts which will be ignored both when they are made and also on the subsequent death of the donor, eg gifts to charity
- any other transfers will be potentially exempt transfers (PETs) and IHT is only due if the donor dies within seven years of making the gift. An alternative way of looking at this is that they are potentially chargeable until seven years has passed. The primary example of a PET is a gift to another individual.

# IHT on death

The main IHT charge is likely to arise on death. IHT is charged on the value of the estate treated as beneficially owned by the deceased. This may include certain types of interest in trust property. Furthermore:

- PETs made within seven years become chargeable
- there may be an additional liability because of chargeable transfers (usually lifetime gifts to trusts) made within the previous seven years.

# Estate planning

Much estate planning involves making lifetime transfers to utilise exemptions and reliefs or to benefit from a lower rate of tax on lifetime transfers.

However, careful consideration needs to be given to other factors. For example a gift that saves IHT may unnecessarily create a capital gains tax (CGT) liability. Furthermore, the prospect of saving IHT should not be allowed to jeopardise the financial security of those involved.

# Gifts between spouses

Gifts between spouses as stated earlier are generally fully exempt, if both are either UK 'long term resident' or both non 'long term resident'. Long term residence is residence of at least 10 years in the UK. Special rules apply where only one spouse is 'long term resident and it means that the spouse exemption may be restricted. It is recommended that advice is always sought if this applies to ensure reliefs are maximised. It may be desirable to use the spouse exemption to transfer assets to ensure that both spouses can make full use of lifetime exemptions, the nil rate band and PETs.

# Gifts to individuals during their lifetime

As these gifts are PETs rather than chargeable transfers when made, no tax at all is due if the donor survives for seven years. Even where a death occurs within seven years IHT may be saved as a result of the lifetime gifts because the charge is based on the value at the date of the gift and does not include any growth on value to date of death.

These rules only apply to outright gifts. Where a benefit is retained, such as the gift of a house in which the donor continues to live rent free, special rules apply and the donor is treated as still owning the asset for IHT. Professional advice should always be taken before considering such actions.

# Nil rate band and seven year cumulation

Chargeable transfers (such as lifetime gifts to trusts) covered by the nil rate band can be made without incurring any IHT liability. Once seven years have elapsed between chargeable transfers an earlier transfer is no longer taken into account in determining IHT on subsequent transfers. Therefore every seven years a full nil rate band will be available to make lifetime chargeable transfers.

# Transferable nil rate band

It is possible for spouses and civil partners to transfer the nil rate band unused on the first death to the surviving spouse for use on the death of the surviving spouse/partner. On that second death, their estate will be able to use their own nil rate band and in addition the same proportion of a second nil rate band that corresponds to the proportion unused on the first death. This allows the possibility of doubling the nil rate band available on the second death. This arrangement can apply where the second death happens after 9 October 2007 irrespective of the date of the first death.

## Annual exemption

An amount of £3,000 per annum may be given by an individual without an IHT charge. Any unused annual exemption may be carried forward, one year only, for use in the tax year that immediately follows.

## .Small gifts

Gifts to individuals not exceeding £250 in total per tax year per recipient are exempt. The exemption cannot be used to cover part of a larger gift.

## Normal expenditure out of income

Gifts which are made out of income which are typical and habitual and do not result in a fall in the standard of living of the donor are exempt. Payments under deed of covenant and the payment of annual premiums on life insurance policies would usually fall within this exemption.

## Family maintenance

A gift for family maintenance does not give rise to an IHT charge. This would include the transfer of property made on divorce under a court order, gifts for the education of children or maintenance of a dependent relative.

## Wedding presents

Gifts in consideration of marriage are exempt up to £5,000 if made by a parent with lower limits for other donors.

## Gifts to charities

Gifts to registered charities are exempt provided that the gift becomes the property of the charity or is held for charitable purposes.

## Business property relief (BPR)

When 'business property' is transferred there is a percentage reduction in the value of the transfer. Often this provides full relief. It is available on worldwide assets. In cases where full relief is available there is little incentive, from a tax point of view, to transfer such assets in lifetime. Additionally no CGT will be payable where the asset is included in the estate on death. Professional advice should be sought to determine whether you have qualifying business property.

# Agricultural property relief (APR)

APR is similar to BPR in that it reduces the value of the transfer but it may not give full relief on the value. It is available on the transfer of agricultural property so long as various conditions are met. APR is restricted to UK assets only from April 2024.

Announcements have been made to restrict the combined amount of APR and BPR reductions that an individual can have from 6 April 2026. The proposals may have a significant impact for some clients. Please contact us to discuss if you have business or agricultural interests in excess of £2.5 million.

# Use of trusts

Trusts can provide an effective means of transferring assets out of an estate whilst still allowing flexibility in the ultimate destination and/or permitting the donor to retain some control over the assets. Provided that the donor does not obtain any benefit or enjoyment from the trust, the property is removed from the estate.

We can advise you on whether a trust is suitable for your circumstances and the types of trust arrangements available.

# Life assurance

Life assurance arrangements can be used as a means of removing value from an estate and also as a method of funding IHT liabilities.

A policy can also be arranged to cover IHT due on death. It is particularly useful in providing funds to meet an IHT liability where the assets are not easily realised, eg family company shares.

# Complexity - is your Will up to date?

Individuals have both a nil rate and a potential residence nil rate band available to mitigate IHT. Careful consideration is needed by spouses as to whether these should be used in full or part on the first spouse death or whether they should be transferred to the second spouse.

There are a number of factors to be considered including the overall value of the combined estate. Potentially a second spouse has £650,000 of standard nil rate band and £350,000 of residence nil rate band if nothing is used on the first death, in other words £1million in total before IHT is chargeable.

This will only be achieved by careful planning however and, in some cases, it may be better for the first deceased spouse to give some assets to the next generation and use up their own nil rate band and residence nil rate band. Pivotal to this planning is an up to date Will. to ensure that any reliefs will be available and efficiently utilised.

# 7. INHERITANCE TAX – ANTI-AVOIDANCE – PRE-OWNED ASSETS

The Pre-Owned Assets rules may apply where an individual successfully removes an asset, usually property, from their estate for inheritance tax purposes but is able to continue to use the asset or benefit from it. We, at Rowland Hall, can provide taxation advice to help you not get unintentionally caught by this complex anti-avoidance legislation.

Inheritance tax (IHT) was introduced nearly 40 years ago and broadly charges tax on certain lifetime gifts of capital and estates on death.

With IHT came the concept of 'potentially exempt transfers' (PETs): Put simply, this is a gift by an individual of capital to another individual and, so long as you live for seven years from making the gift, there can be no possible IHT charge on it whatever the value of the gift. The rules create uncertainty until the seven year period has elapsed but, at the same time, opportunity to pass significant capital value down the generations without an IHT charge. Of course tax is not simple other factors, both tax and non-tax, need to be considered before undertaking such transactions.

In any case, many people are simply not in a position to make significant lifetime gifts of capital. There are a number of reasons for this, the most obvious being that their capital is tied up in assets such as the family home and business interests and/or it produces income they need to live on.

## Gifting the family home?

But what is to stop a gift of the family home being made to, say, your (adult) children whilst you continue to live in it? The answer is simple: nothing! However such a course of action is unattractive not to say foolhardy for a number of reasons the most significant being:

- security of tenure may become a problem
- loss of main residence exemption for capital gains tax purposes
- it doesn't actually work for IHT purposes.

The reason such a gift doesn't work for IHT is because the 'gift with reservation' (GWR) rules deem the property to continue to form part of your estate because you continue to derive benefit from it by virtue of living there. This is a complex area so do get in touch if you would like some advice.

# Getting around the rules

To get around the GWR rules a variety of complex schemes were developed, the most common being the ‘home loan’ or ‘double trust’ scheme, which allowed continued occupation of the family home whilst removing it from the IHT estate. For an individual with a family home worth say £750,000 the prospect of an ultimate IHT saving of £300,000 (being £750,000 x 40%) was an attractive one.

# HMRC’s response

Over time the schemes were tested in the courts and blocked for the future.

However HMRC decided that they needed additional measures to support circumstances where the GWR rules may not strictly apply but nevertheless, a gift has been effected and a benefit retained. A new income tax charge was introduced instead, levied on the previous owner of an asset if they continue to be able to enjoy use of the asset or the capital. The rules are referred to as the Pre-Owned Assets (POA) rules. They are aimed primarily at land and buildings but also apply to chattels and certain intangible assets commonly held in a trust.

# Scope

In broad outline, the rules apply where an individual successfully removes an asset from their estate for IHT purposes (ie the GWR rules do not apply) but is able to continue to use the asset or benefit from it.

## Example 1

Ed gave his home to his son Oliver in 2014 by way of an outright gift and Ed continues to live in the property.

This is not caught by the POA rules because the house is still part of Ed’s IHT estate by virtue of the GWR rules.

## Example 2

In 2015 Hugh made a gift of cash to his daughter Caroline. Caroline later used the cash to buy a property which Hugh then moved into in 2020. The POA rules apply.

The rules would still apply even if Caroline had used the initial cash to buy a portfolio of shares which she later sold using the proceeds to buy a property for Hugh to live in.

If Hugh's occupation of the property had commenced in 2023, the POA rules would not apply because there is a gap of more than seven years between the gift and occupation.

There are a number of exclusions from the rules, one of the most important being that transactions will not be caught where a property is transferred to a spouse or former spouse under a court order.

# Start date - retrospection?

Despite the fact that the regime is only effective from 6 April 2005, it can apply to arrangements that may have been put in place at any time since March 1986. This aspect of the rules has come in for some harsh criticism. At the very least it means that pre-existing schemes need to be reviewed to see if the charge will apply.

# Calculating the charge

The charge is based on a notional market rent for the property. Assuming a rental yield of, say, 5%, the income tax charge for a higher rate taxpayer on a £1 million property will be £20,000 each year.

The rental yield or value is established assuming a tenant's repairing lease.

Properties need to be valued once every five years. In situations where events happened prior to 6 April 2005, the first year of charge was 2005/06 and the first valuation date was 6 April 2005. In these cases a new valuation should have been made on 6 April 2010 and 6 April 2015.

The charge is reduced by any actual rent paid by the occupier – so that there is no charge where a full market rent is paid.

The charge will not apply where the deemed income in relation to all property affected by the rules is less than £5,000.

The rules are more complex where part interests in properties are involved.

## Avoiding the charge

There are a number of options for avoiding the charge where it would otherwise apply.

- Consider dismantling the scheme or arrangement. However this may not always be possible and even where it is the costs of doing so may be prohibitively high.
- Ensure a full market rent is paid for occupation of the property - not always an attractive option.
- Elect to treat the property as part of the IHT estate – this election cannot be revoked once the first filing date for a POA charge has passed.

# The election

The effect of the election using the example above is that the annual £20,000 income tax charge will be avoided but instead the £1 million property is effectively treated as part of the IHT estate and could give rise to an IHT liability of £400,000 for the donee one day. Whether or not the election should be made will depend on personal circumstances, but the following will act as a guide.

# Reasons for making the election

Where the asset qualifies for business or agricultural property reliefs for IHT.

Where the value of the asset is within the IHT nil rate band even when added to other assets in the estate.

Where the asset's owner is young and healthy.

# Reasons not to make the election

The life expectancy of the donor is short due to age or illness and the income tax charge for a relatively short period of time will be substantially less than the IHT charge.

The amount of the POA charge is below the £5,000 de minimis.

The donor does not want to pass the IHT burden to the done.

The election must be made by 31 January in the year following that in which the charge would first apply. HMRC will however allow a late election at their discretion.

# What now?

The rules undoubtedly make effective tax planning with the higher value family home more difficult. However they do not rule it out altogether and the ideas we mention below may be appropriate depending on your circumstances.

In addition, the introduction of the Residence Nil Rate Band from 6 April 2017 has restricted the need to consider this type of planning for homes up to £350,000 (£175,000 for a single person) per married couple (including registered civil partners) because, provided the home is left to direct descendants on death, the transaction is relieved from IHT. Where the home has a value exceeding £350,000, the amount charged will still be reduced, provided the estate does not exceed £2 million. Where it does exceed £2million (before other reliefs given) the relief is gradually tapered to nil.

# Sharing arrangements

Where a share of your family home is given to a family member (say an adult child) who lives with you, both IHT and the POA charge can be avoided. The expenses of the property should be shared. This course of action is only suitable where the sharing is likely to be long term and there are not other family members who would be compromised by the making of the gift.

# Equity release schemes

Equity release schemes whereby you sell all or part of your home to a commercial company or bank have been popular in recent years. Such a transaction is not caught by the POA rules.

If the sale is to a family member, a sale of the whole property is outside the POA rules but the sale of only a part is caught if the sale was on or after 7 March 2005. There is no apparent logic in this date.

The cash you receive under such a scheme will be part of your IHT estate but you may be able to give this away later.

# Wills

Wills are not affected by the regime and so it is more important than ever to ensure you have a tax-efficient Will.

# Summary

This is a complex area and professional advice is necessary before embarking on any course of action. The POA rules are limited in their application but having said that they have the potential to affect transactions undertaken as long ago as March 1986.

# 8 TRUSTS

Trusts are separate persons for UK tax purposes and have specific rules for all the main taxes. There are also a range of anti-avoidance measures aimed at preventing exploitation of potential tax benefits. If you live in the Essex area we, at Rowland Hall, can provide taxation advice to help you utilise trusts as part of an overall tax planning strategy for you and your family.

## What are trusts?

Trusts are a long established mechanism which allow individuals to benefit from the assets whilst others (the trustees) have the legal ownership and day to day control over the assets. A trust can be extremely flexible and have an existence totally independent of the person who established it and those who benefit from it.

A person who transfers property into a trust is called a settlor (or truster in Scotland). Persons who enjoy income or capital from a trust are called beneficiaries. Though not very common with English trusts, it is possible for the settlor to appoint a protector, an independent person who oversees the administration of the trust.

Trusts are separate persons for UK tax purposes and have specific rules for all the main taxes. There are also a range of anti-avoidance measures aimed at preventing exploitation of potential tax benefits.

## Trust Registration Service

The Trust Registration Service ('TRS') requires all trusts and 'complex estates' (broadly those with a value of more than £2.5m or involving a capital sale with proceeds of more than £500,000) to be registered centrally. In addition to this the trust must update the register every year when there has been a taxable event. The most common instance of this will be the submission of annual income tax returns to be completed by 31 January following the relevant tax year; the TRS register must be updated by the same deadline. However, it is not just the imposition of annual income tax liabilities which necessitates an annual TRS update, any liability of any tax (including IHT and SDLT) will require the TRS to be updated.

Taxable trusts are now required to provide additional data to confirm if:

- the trust is, or is not, an express Trust
- a non-UK trust has a business relationship in the UK
- the trust has purchased any UK land or property

- the trust has a controlling interest in a non-European Economic Area (EEA) company (and if so, provide company details).

They will also have to supply additional data about the individuals involved in the trust. Information must also be provided about:

- country of residence
- country of nationality
- whether the person has mental capacity at the time of registration.

### Non-taxable trusts

HMRC has also started to allow non-taxable trusts to register and make changes to their trust details. Use of the service is only currently available on a limited basis to allow for service development and enhancement, so will only be accessible to those who have been invited to use the service.

The TRS is available via www.gov.uk/trusts-taxes/trustees-tax-responsibilities

# Types of trusts

There are two basic types of trust in regular use for individual beneficiaries:

- life interest trusts (sometimes referred to as interest in possession trusts and in Scotland known as life renter trusts)
- discretionary trusts.

## Life interest trusts

A life interest trust has the following features:

- a nominated beneficiary (the life tenant or life renter in Scotland) has an interest in the income from the assets in the trust or has the use of trust assets. This right may be for life or some shorter period (perhaps to a certain age)
- the capital may pass onto another beneficiary or beneficiaries.

A typical example is where a widow is left the income for life and on her death the capital passes to the children.

## Discretionary trusts

A discretionary trust has the following features:

- no beneficiary is entitled to the income as of right
- the settlor gives the trustees discretion to pay the income to one, some or all of a nominated class of possible beneficiaries
- income can be retained by the trustees
- capital can be gifted to nominated individuals or to a class of beneficiaries at the discretion of the trustees.

# Inheritance tax consequences

## Importance of 22 March 2006

Major changes were made in the IHT regime for trusts with effect from 22 March 2006. The old distinction between the tax treatment of discretionary and life interest trusts was swept away. The approach now is to identify trusts which fall in the so-called 'relevant property' regime and those which do not.

## Relevant property trusts

Trusts which fall in the relevant property regime are:

- all discretionary trusts whenever created
- all life interest trusts created in the settlor's lifetime after 22 March 2006
- any life interest trust created before 22 March 2006 where the beneficiaries were changed after 6 October 2008. A key exception exists where a change occurs after 6 October 2008 in favour of a spouse on the death of a life tenant.

If a relevant property trust is set up in the settlor's lifetime, this gives rise to an immediate charge to inheritance tax but at the lifetime rate of 20%. If the value of the gift (and certain earlier gifts) is below £325,000 no tax is payable. Discretionary trusts set up under a will attract the normal inheritance tax charge at the death rate of 40%.

Relevant property trusts are charged to tax every ten years (known as the periodic charge) at a maximum rate of 6% of the value of the assets on each tenth anniversary of the setting up of the trust. A fair prorate charge of less than 6% (and often much lower) is also made if assets are appointed out of the trust known as an ‘exit charge’.

## Benefits of a relevant property trust

Whilst the inheritance tax charges do not look attractive, the relevant property trust has a significant benefit in that no tax charge will arise when a beneficiary dies because the assets in the trust do not form part of a beneficiary's estate for IHT purposes. There can be significant long-term IHT advantages in using such trusts.

# Trusts which are not relevant property

Within this group are:

- life interest trusts created before 22 March 2006 where the pre-2006 beneficiaries remain in place or were changed before 6 October 2008 or where a second spouse has taken over the life interest on the death of the first spouse
- the trust was created after 22 March 2006 under the terms of a will and gives an immediate interest (cannot be replaced by another) in the income to a beneficiary and the trust is neither a bereaved minor’s nor a disabled person’s trust; or
- the trust is created in the settlor's lifetime or on death for a disabled person .

For pre-22 March 2006, lifetime transfers into a life interest trust, the gift would have been a potentially exempt transfer (PET) and no inheritance tax would have been payable if the settlor survived for seven years. Transfers into a trust on death would be chargeable unless the life tenant was the spouse of the settlor. There is no periodic charge on such trusts. There will be a charge when the life tenant dies because the value of the assets in the trust in which they have an interest has to be included in the value of their own 'settled estate' for IHT purposes.

# Capital gains tax consequences

If assets are transferred to trustees, this is considered a disposal for capital gains tax purposes at market value but in many situations any capital gain arising can be deferred and passed on to the trustees.

Gains made by trustees on the disposal of trust assets are chargeable at 24% (20% for disposals before 30 October 2024). Residential property gains are charged at 24% throughout the tax year.

Where assets leave the trust on transfer to a beneficiary who becomes legally entitled to them, there will be a CGT charge by reference to the then market value. Again it may be possible to defer that charge.

# Income tax consequences

Life interest trusts are taxed on their income at 8.75% on dividends and 20% on other income. Discretionary trusts pay tax at 39.35% (dividends) and 45% (other income).

Income paid to life interest beneficiaries has an appropriate tax credit available with the effect that the beneficiaries are treated as if they receive the income as the owners of the assets.

If income is distributed at trustee discretion from discretionary trusts, the beneficiaries will receive the income net of 45% tax. They are generally able to obtain refunds of any overpaid tax and if they pay tax at 45%, they will get credit for the tax paid. Refund exceptions may apply in certain settlor trust situations.

# Could I use a trust?

Trusts can be used in a variety of situations both to save tax and also to achieve other benefits for the family. Particular benefits are as follows:

- if you transfer assets into a trust in your lifetime you can remove the assets from your estate but could act as trustee so that you retain control over the assets (always remembering that they must be used for the beneficiaries)
- a transfer of family company shares into a trust in lifetime (or on death) can be a way of ensuring that the valuable business property relief is utilised
- by putting assets into a trust you can give the beneficiary the income from the asset without actually giving them the asset which could be important if the beneficiary is likely to spend the capital or the capital could be at risk from predators such as a divorced spouse

- trusts (particularly discretionary trusts) can give great flexibility in directing benefit for different members of the family without incurring significant tax charges
- if you want to make some IHT transfers in your lifetime but are not sure who you would like to benefit from them, a transfer to a discretionary trust can enable you to reduce your estate and leave the trustees to decide how to make the transfers on in later years. It also means that the assets transferred do not now hit the estates of the beneficiaries.

# 9. PROPERTY INVESTMENT – BUY TO LET

Buy to let traditionally involves investing in property with the expectation of capital growth with the rental income from tenants covering the mortgage costs and any outgoings. We at Rowland Hall, can help you sort out some of the potential problems that may arise and structure the investment appropriately.

The UK property market, whilst cyclical, has proved over the long-term to be a very successful investment. This has resulted in a massive expansion in the buy to let sector.

Buy to let involves investing in property with the expectation of capital growth with the rental income from tenants covering the mortgage costs and any outgoings.

However, the gross return from buy to let properties - ie the rent received less costs such as letting fees, maintenance, service charges and insurance - is no longer as attractive as it once was. Investors need to take a view on the likelihood of capital appreciation exceeding inflation.

This factsheet should be considered only in the context of a UK resident property owner.

## Factors to consider

## Do

- think of your investment as medium to long-term
- research the local market
- do your sums carefully
- consider decorating to a high standard to attract tenants quickly.

## Don't

- purchase anything with serious maintenance problems
- think that friends and relatives can look after the letting for you - you're probably better off with a full management service
- cut corners with tenancy agreements and other legal documentation.

# Which property?

Investing in a buy to let property is not the same as buying your own home. You may wish to get an agent to advise you of the local market for rented property. Is there a demand for say, two bedroom flats or four bedroom houses or properties close to schools or transport links? An agent will also be able to advise you of the standard of decoration and furnishings which are expected to get a quick let.

# Agents

Letting property can be very time consuming and inconvenient. Tenants will expect a quick solution if the central heating breaks down over the bank holiday weekend! Also do you want to advertise the property yourself and show around prospective tenants? An agent will be able to deal with all of this for you.

# Tenancy agreements

This important document will ensure that the legal position is clear.

# Taxation

When buying to let, taxation aspects must be considered.

# Tax on rental income

Income tax will be payable on the rents received after deducting allowable expenses. Allowable expenses include repairs, agent’s letting fees and an allowance for furnishings.

## Restriction loan interest relief for 'buy to let' landlords

The amount of income tax relief landlords can get on residential property finance costs has been restricted to the basic rate of income tax. Finance costs include mortgage interest, interest on loans to buy furnishings and fees incurred when taking out or repaying mortgages or loans. No relief is available for capital repayments of a mortgage or loan.

This restriction does not apply to non-residential landlords.

## Replacement of furnishings

A relief enables all landlords of residential dwelling houses to deduct the costs they actually incur on replacing furnishings, appliances and kitchenware in the property. Relief is due on the cost of replacing furnishings to a wide range of property businesses.

Examples of eligible capital expenditure are:

- furniture
- furnishings
- appliances (including white goods)
- kitchenware

but excludes items which are fixtures.

However, the relief is limited to the cost of an equivalent item if there is an improvement on the old item. The deduction is not available where rent-a-room relief is claimed.

# Tax on sale

Capital gains tax (CGT) will be payable on the eventual sale of the property. The tax will be charged on the disposal proceeds less the original cost of the property, certain legal costs and any capital improvements made to the property. This gain may be further reduced by any annual exemption available.

CGT is generally charged at 18% within the basic rate and 24% for higher rates.

CGT is payable on 31 January after the end of the tax year in which the gain is made. A payment on account of any CGT due on the disposal of residential property is required to be made within 60 days of the completion of the disposal.

# Student lettings

Buy to let may make sense if you have children at college or university. It is important that the arrangement is structured correctly. The student should purchase the property (with the parent acting as guarantor on the mortgage). There are several advantages to this arrangement.

## Advantages

This is a cost-effective way of providing your child with somewhere decent to live.

Rental income on letting spare rooms to other students should be sufficient to cover the mortgage repayments from a cash flow perspective.

As long as the property is the child's only property it should be exempt from CGT on its eventual sale as it will be regarded as their main residence.

The amount of rental income chargeable to income tax is reduced by a deduction known as 'rent a room relief' (£7,500 per annum from 6 April 2016). In this situation no expenses are tax deductible. Alternatively, expenses can be deducted from income under normal letting rules where this is more beneficial.

# Tax allowance for property and trading income

Two £1,000 allowances for property and trading income are available.

Where the allowances cover all of an individual's relevant income (before expenses) then they no longer have to declare or pay tax on this income. Those with higher amounts of income have the choice, when calculating their taxable profits, of deducting the allowance from their receipts, instead of deducting the actual allowable expenses. The trading allowance will also apply for Class 4 NICs.

The allowances do not apply to income on which rent a room relief is given. Neither do the allowances apply to partnership income from carrying on a trade, profession or property business in partnership.

The trading allowance may also apply to certain miscellaneous income from providing assets or services to the extent that the £1,000 trading allowance is not otherwise used.

# 9A. PROPERTY INVESTMENT GENERAL

Investment in property has been and continues to be a popular form of investment for many people. It is seen as a route by which:

- relatively secure capital gains can be made on eventual sale
- income returns can be generated throughout the period of ownership
- mortgage finance is covered in repayment terms by the security of the eventual sale of the property and in interest terms by the rental income.

Of course, the net returns in capital and income will depend on a host of factors. But on the basis that the investment appears to make commercial sense, what tax factors should you take into account?

This factsheet should be considered only in relation to a UK resident property owner.

# Who or what should purchase the property?

An initial decision needs to be made whether to purchase the property:

- as an individual
- as a joint owner or via a partnership (often with a spouse)
- via a company.

There are significant differences in the tax effects of ownership by individuals or a company. Deciding on the best medium will depend on a number of factors. These include:

- if you already own a company
- expected drawings from the company
- whether you are expecting to invest in more property in the future
- whether you are expecting to sell individual properties piecemeal or as a portfolio in the future
- if you are mainly financing the initial purchases of the property from your own capital.

## Initial purchase of the property

SDLT is payable by the purchaser of the property in England and Northern Ireland. Land and Buildings Transaction Tax is payable in Scotland and Land Transaction Tax is payable in Wales. The rates are dependent on the value of the property and whether it is residential or non-residential.

# Purchase by company

Where expensive residential property, valued at more than £500,000, is purchased by a 'non natural person', broadly a company, there is a potential charge - the Annual Tax on Enveloped Dwellings (ATED). The ATED is payable by those purchasing and holding residential property through corporate envelopes, such as companies. In addition a higher rate of SDLT of 15% applies to the purchase.

There are exemptions from the higher rate of SDLT and the ATED charge; in particular, property companies letting out residential properties to third parties.

# Ongoing rental

# Rental income

For personally-owned property the net rental income will be taxed at your marginal rate of tax. Specific rules apply to split rental income for jointly owned properties and we can assist you with understanding these further.

In contrast, the net rental income for a company will be taxed at the corporation tax rate which may be lower than the income tax rates for an individual depending on the amount of rental and other sources of income. However there is frequently a further tax charge should you wish to extract any of the proceeds from the company.

The overall tax cost on income will therefore be partially dependent on how much of the income you wish to extract and how that income will be extracted e.g. salary, dividend, pension contribution etc. Where profits are retained by the company, the income may suffer less tax than if income tax applied. That means there are more funds available to buy more properties in the future.

# Finance costs

Tax relief for finance costs on residential property held by an individual is limited to 20% as a basic rate income tax reducer.

This restriction does not apply to non-residential landlords nor to companies investing in residential or non-residential property.

# Renting a commercial property to your own limited company

The personal purchase of new offices or other buildings and the charging of rent for the use of the buildings to your company may be tax efficient from an income tax position as:

- the rental you receive from the company allows sums to be extracted without National Insurance
- the company will be able to claim a corporate tax deduction for the rent
- finance costs are currently deductible from the rental income.

However, to the extent that rent is paid from the company, this may impact the availability of Business Asset Disposal Relief on a future disposal of the property (see below).

# Disposal

Capital gains on the disposal of an asset are generally calculated by deducting the cost of the asset from the proceeds on disposal and reducing this by the annual exemption. Gains are treated as an individual's top slice of income and are generally taxed at 18% and 24% or a combination of the two. These rates apply regardless of whether the property is residential or non-residential (previously different rates applied to non-residential i.e. commercial property disposals).

Capital gains for companies will be subject to the rate of corporation tax applicable to the company ie 19% or 25%.

# Business Asset Disposal Relief (BADR)

BADR is available on the disposal of trading businesses and therefore generally would not apply to property held by an individual as this would be considered investment activity.

However, where an individual owns a commercial property used by their trading business and the property is disposed of as part of a disposal of the business then the individual may benefit from the BADR rates (14% for 2025/26 increasing to 18% for 2026/27) on the disposal of the property as an 'associated disposal'. Relief is limited where the company pays rent on the property; BADR is not available where market value rent has been paid to the individual.

Care should also be taken around inserting an investment property into your trading company as this may result in your shareholding in that company not qualifying for BADR. You should consider whether another company should be formed to hold property to protect the trading status of the existing company.

# Disposal of a property investment company

CGT will be due on the gain on the shares.

The disposal of shares may be more attractive to the purchaser of the properties rather than buying the properties directly, as they will only have 0.5% stamp duty to pay rather than the potentially higher sums of Stamp Duty Land Tax (SDLT) on the property purchases.

# 10. TAXATION OF THE FAMILY

Husbands and wives are taxed separately, and the tax position of any children is also a consideration. Marriage breakdowns can also have a considerable impact for tax purposes. We consider the relevant issues and the basic tax planning opportunities. We, at Rowland Hall can help you plan a tax efficient strategy depending on you and your family's personal circumstances.

Individuals are subject to a system of independent taxation, so husbands, wives and civil partners are taxed separately. This can give rise to valuable tax planning opportunities. Furthermore, the tax position of any children is important.

Marriage and civil partnership breakdowns can also have a considerable impact for tax purposes.

We highlight below the main areas of importance where advance planning can help to minimise overall tax liabilities.

It is important that professional advice is sought on specific issues relevant to your personal circumstances.

## Setting the scene

### Married couples and civil partners

Independent taxation means that spouses and civil partners are taxed separately on their income and capital gains. The effect is that both have their own allowances, savings and basic rate tax bands for income tax, annual exemption for capital gains tax purposes and are responsible for their own tax affairs.

### Children

A child is an independent person for tax purposes and is therefore entitled to a personal allowance and the savings and basic rate tax band before being taxed at the higher rate. It may be possible to save tax by generating income or capital gains in the children's hands.

### Marriage and civil partnership breakdown

Separation, divorce and dissolution can have significant tax implications. In particular, the following areas warrant careful consideration:

- available tax allowances
- transfers of assets between spouses.

# Tax planning for married couples and civil partners

## Income tax allowances and tax bands

Everyone is entitled to a basic personal allowance. This allowance cannot however be transferred between spouses and civil partners except for the circumstances outlined below.

## Transferable Tax Allowance or Marriage Allowance

Married couples and civil partners may be eligible for a Transferable Tax Allowance.

The Transferable Tax Allowance (also referred to as the Marriage Allowance) enables spouses and civil partners to transfer a fixed amount of their personal allowance to their partner. The option to transfer is not available to unmarried couples.

The option to transfer is available to couples where neither pays tax at the higher or additional rate. If eligible, one partner is able to transfer 10% of their personal allowance to the other partner, which is currently £1,260.

Couples are entitled to the full benefit in their first year of marriage.

For those couples where one person does not use all of their personal allowance the benefit will be worth approximately £250.

Eligible couples can apply for the marriage allowance at www.gov.uk/marriage-allowance. The spouse or partner with the lower income applies to transfer some of their personal allowance by entering some basic details.

Those who do not apply via the government gateway will be able to make an application at a later date and still receive the allowance.

If either spouse or civil partner were born before 6 April 1935, then a married couple's allowance is available. For marriages before 5 December 2005 the allowance is based on the husband's income, for marriages and civil partnerships formed after that date the allowance is based on the income of the highest earner.

## Joint ownership of assets

In general, married couples and civil partners should try to arrange their ownership of income producing assets so as to ensure that personal allowances are fully utilised and any higher rate liabilities minimised.

Generally, when a couple jointly own assets, any income arising is assumed to be shared equally for tax purposes. This applies even where the asset is owned in

unequal shares unless an election is made to split the income in proportion to the ownership of the asset.

Married couples and civil partners are taxed on dividends from jointly owned shares in ‘close’ companies according to their actual ownership of the shares. Close companies are broadly those owned by the directors or five or fewer people. For example if a spouse is entitled to 95% of the income from jointly owned shares they will pay tax on 95% of the dividends from those shares. This measure is designed to close a perceived loophole in the rules and does not apply to income from any other jointly owned assets.

We can advise on the most appropriate strategy for jointly owned assets so that tax liabilities are minimised.

# Capital gains tax (CGT)

Each spouse's CGT liability is computed by reference to their own disposals of assets and each is entitled to their own annual exemption of £3,000 for 2024/25 and 2025/26 (£6,000 for 2023/24). Some limited tax savings may be made by ensuring that maximum advantage is taken of any available capital losses and annual exemptions.

This can often be achieved by transferring assets between spouses before sale - a course of action generally having no adverse CGT or Inheritance Tax (IHT) implications. Advance planning is vital, and the possible income tax effects of transferring assets should not be overlooked.

Further details of how CGT operates are outlined in the factsheet Capital Gains Tax.

# Inheritance tax (IHT)

When a person dies IHT becomes due on their estate. Some lifetime gifts are treated as chargeable transfers but most are ignored providing the donor survives for seven years after the gift.

The rate of IHT payable is 40% on death and 20% on lifetime chargeable transfers. The first £325,000 is not chargeable and this is known as the nil rate band.

Transfers of property between spouses are generally exempt from IHT. Rules were introduced which allow any nil-rate band unused on the first death to be used when the surviving spouse dies.

The amount of the nil-rate band available for transfer will be based on the proportion of the nil-rate band which was unused when the first spouse died. Key documentary evidence will be required for a claim, so do get in touch to discuss the information needed.

# IHT residence nil rate band

An additional nil rate band is available where an interest in a main residence passes to direct descendants. The amount of relief is £175,000 for 2024/25 and 2025/26 and is frozen at this amount until 2030. For many married couples and civil partners the

relief is effectively doubled as each individual has a main nil rate band and each will potentially benefit from the residence nil rate band.

The additional band can only be used in respect of one residential property which does not have to be the main family home but must at some point have been a residence of the deceased. Restrictions apply where estates are in excess of £2 million.

Where a person died before 6 April 2017, their estate will not qualify for the relief. A surviving spouse may be entitled to an increase in the residence nil rate band if the spouse who died earlier has not used, or was not entitled to use, their full residence nil rate band. The calculations involved are potentially complex but the increase will often result in a doubling of the residence nil rate band for the surviving spouse.

The residence nil rate band may also be available when a person downsizes or ceases to own a home on or after 8 July 2015 where assets of an equivalent value, up to the value of the residence nil rate band, are passed on death to direct descendants.

Taxpayers now have three nil rate bands to consider. The standard nil rate band has been a part of the legislation from the start of IHT in 1986. In 2007 the ability to utilise the unused nil rate band of a deceased spouse was introduced, enabling many surviving spouses to have a nil rate band of up to £650,000.

From 6 April 2020 some surviving spouses are able to add £350,000 in respect of the residence nil rate bands to arrive at a total nil rate band of £1 million. However this will only be achieved by careful planning and, in some cases, it may be better for the first deceased spouse to have given some assets to the next generation and use up some or all of the available nil rate bands.

For many individuals, the residence nil rate band will be important but individuals will need to revisit their wills to ensure that the relief will be available and efficiently utilised.

# Gifts

A gift for family maintenance does not give rise to an IHT charge. This would include the transfer of property made on divorce under a court order, gifts for the education of children or maintenance of a dependent relative.

Gifts in consideration of marriage are exempt up to £5,000 if made by a parent with lower limits for other donors.

Small gifts to individuals not exceeding £250 in total per tax year per recipient are exempt. The exemption cannot be used to cover part of a larger gift.

Gifts which are made out of income which are typical and habitual and do not result in a fall in the standard of living of the donor are exempt. Payments under deed of covenant and the payment of annual premiums on life insurance policies would usually fall within this exemption.

# Children

## Use of allowances and lower rate tax bands

It may be possible for tax savings to be achieved by the transfer of income producing assets to a child so as to take advantage of the child's personal allowance.

This cannot be done by the parent if the annual income arising is above £100. The income will still be taxed on the parent. However, transfers of income producing assets by others (eg grandparents) will be effective.

A parent can however allow a child to use any entitlement to the CGT annual exemption by using a 'bare trust'.

## Universal Credit

Universal Credit may be available to some families. To see whether you are entitled to claim visit www.gov.uk/universal-credit

## Junior Individual Savings Accounts (Junior ISA)

The Junior ISA is available for UK resident children under the age of 18 who do not have a Child Trust Fund account. Junior ISAs are tax advantaged and have many features in common with existing ISAs. They are available as cash or stocks and share-based products. The annual subscription limit is £9,000 for 2025/26 (£9,000 for 2024/25).

# High Income Child Benefit Charge

A charge applies to a taxpayer who has adjusted net income over £60,000 in a tax year where either they or their partner are in receipt of Child Benefit for the year. Where both partners have adjusted net income in excess of £60,000 the charge will apply to the partner with the higher income.

The income tax charge will apply at a rate of 1% of the full Child Benefit award for each £200 of income between £60,000 and £80,000. The charge on taxpayers with income above £80,000 will be equal to the amount of Child Benefit paid.

Child Benefit claimants can elect not to receive Child Benefit if they or their partner do not wish to pay the charge.

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## Example

The Child Benefit for two children amounts to £2,212.

The taxpayer's adjusted net income is £68,000.

The income tax charge will be £885.

This is calculated as £22.12 for every £200 above £60,000.

For a taxpayer with adjusted net income of £80,000 or above the income tax charge will equal the Child Benefit.

# Marriage and civil partnership breakdown

## Maintenance payments

An important element in tax planning on marriage breakdown used to involve arrangements for the payment of maintenance. Generally, no tax relief is due on maintenance payments.

## Asset transfers

Marriage and civil partnership breakdowns often involve the transfer of assets between partners. Unless the timing of any such transfers is carefully planned there can be adverse CGT consequences.

If an asset is transferred between a husband and wife or civil partners who are living together, the asset is deemed to be transferred at a price that does not give rise to a gain or a loss. This treatment continues up to the end of the tax year in which the separation takes place.

CGT can therefore present a problem where transfers take place after the end of the tax year of separation but before divorce, although gifts holdover relief is usually available on transfers of qualifying assets under a Court Order.

IHT on the other hand will not cause a problem if transfers take place before the granting of a decree absolute on divorce. Transfers after this date may still not be a problem as often there is no gratuitous intent.

# 11. Statutory Residence Test

We consider the statutory residence test and outline rules and records required. We can provide advice on your individual circumstances.

The concept of residence in the United Kingdom is fundamental to the determination of UK tax liability for any individual.

The Statutory Residence Test (SRT) provides, through a series of tests, a definitive process to determine the UK residence status of any individual. That status applies for income tax, capital gains tax and inheritance tax purposes.

Once that status has been established then other rules determine the extent of an individual's liability to UK taxes. These other rules may include not just UK statute but also double tax treaties with other countries. These rules are not covered in this factsheet.

## Counting days

The SRT relies heavily on the concept of counting 'days of presence' in the UK in the relevant tax year and so it is important to understand what this term means. The basic rule is a day of presence is one where the individual was in the country at midnight. There are two exceptions to this:

- the individual only arrives as a passenger on that day and leaves the UK the next day and in between does not engage in activities that are to a substantial extent unrelated to their passage through the UK and
- the individual would not be present in the UK at the end of the day but for exceptional circumstances beyond their control which prevent them from leaving and they would intend to leave as soon as those circumstances permit.

A further rule applies where an individual has been resident in the UK in at least one of the three previous tax years and has at least three 'ties' with the UK. It will then be necessary to add to the total of 'midnight days' the excess over 30 of any other days where the individual spent any time at all in the UK.

## Three tests

The SRT is based on a series of three tests which must be considered in a particular order in every case. The tests are applied to the facts in the 'relevant tax year' i.e. the year for which residence status is being determined:

- first consider the Automatic Overseas Test (AOT). If this test is satisfied the individual will be not resident in the UK in the relevant tax year and no further tests are required. If the AOT is not satisfied then move on to

- the Automatic Residence Test (ART). If this test is satisfied the individual will be resident in the UK in the relevant tax year and no further tests are required. If the test is not satisfied move on to
- the Sufficient Ties Test (STT). If this test is satisfied the individual will be resident in the UK and if it is not satisfied, they will be not resident.

The detailed conditions relating to each test are discussed below. There are further tests which only apply if the individual has died in the year but these are not dealt with here.

# The Automatic Overseas Test (AOT)

There are three possible tests in the AOT and if an individual satisfies any one of these, they will be not resident in the UK in the relevant tax year. The conditions are that the individual:

- was resident in the UK in one or more of the previous three tax years and they are present in the UK for fewer than 16 days in the relevant tax year
- was not resident in the UK in all of the previous three tax years and they are present in the UK for fewer than 46 days in the relevant tax year
- works full time abroad for at least a complete tax year and they are present in the UK for fewer than 91 days in the relevant tax year and no more than 30 days are spent working (currently defined as more than 3 hours) in the UK in the tax year.

The first two tests are simply based on a day count and ignore the existence of other factors such as other links with the UK like the availability of accommodation in the UK.

There are conditions for the third test which need to be considered by those planning to go abroad to work either as an employee or on a self-employed basis. Obviously, the days of presence and the working days must be considered carefully. In addition, it should be noted that:

- full time work is defined as an average of 35 hours a week over the whole period of absence. Account can be taken of a range of factors such as holidays and sick leave to effectively improve the average
- working days in the UK do not have to be the same as the days of presence so a day where there is UK work and the individual leaves the UK before the end of the day may well count as a working day

HMRC will expect evidence to be provided if it is claimed that the time limit for a working day has not been exceeded.

The way in which the subsequent tests are structured mean that it is really important that a working expatriate can pass the AOT and be treated as not resident otherwise they are likely to find a real problem under the later tests.

# The Automatic Residence Test (ART)

If the AOT is not met then the individual must next consider the conditions of the ART. This test will be satisfied if any of the following apply to the individual for the relevant tax year:

- they are present in the UK for 183 days or more in a tax year
- they have a home in the UK and they are present in that home on at least 30 separate days in the relevant year. There must be a period of at least 91 consecutive days during which the home is available and at least 30 of those days must fall within the relevant tax year
- they carry out full time work in the UK for a period of 365 days during which at least 75% of their time is spent in the UK.

The 'home' test may be of real significance because, if that test applies, the number of days in the UK is irrelevant. The legislation makes clear that a home can be a building or part of a building and can include a vessel or vehicle. It must have a degree of permanence or stability to count as a home but specific circumstances may have to be considered. If the individual also has a home abroad, the second test above will not apply if the person spends more than 30 days at the home abroad in the tax year.

# The Sufficient Ties Test

If no conclusive answer to residence status has arisen under the first two tests, the individual must then look at how the STT applies to them for the relevant tax year. The test will be satisfied if the individual has sufficient UK ties for that year. This will depend on two basic conditions:

- whether the individual was resident in the UK for any of the previous three tax years and
- the number of days the individual spends in the UK in the relevant tax year.

The STT reflects the principle that the more time someone spends in the UK, the fewer connections they can have with the UK if they want to be not resident. It also incorporates the principle that residence status should adhere more to those who are already resident than to those who are not currently resident.

Under the STT an individual compares the number of days of presence in the UK against five connection factors. Individuals who know how many days they spend in the UK and how many relevant connection factors they have can then assess whether they are resident.

The five ties are summarily set out as:

- a family tie - this will apply if either a spouse or minor child is resident in the UK in the relevant tax year
- an accommodation tie - where there is accommodation which is available for at least 91 days in the tax year and is actually used at least once
- a work tie - where there are at least 40 working days of three hours or more in the UK in the relevant tax year

- a 90-day tie - more than 90 days were spent in the UK in either or both of the two immediately preceding UK tax years and
- a country tie - more time is spent in the UK than in any other single country in the relevant tax year.

An individual who has been resident in the UK in any of the three preceding tax years must consider all five ties and they will be resident if any of the following apply:

| | |
|---|---|
| 16 - 45 | at least 4 |
| 46 - 90 | at least 3 |
| 91 - 120 | at least 2 |
| 121 - 182 | at least 1 |

An individual who has not been resident in any of the three preceding years must consider all the ties apart from the country tie and they will be resident in any of the following situations:

| | |
|---|---|
| 46 - 90 | all 4 |
| 91 - 120 | at least 3 |
| 121 - 182 | at least 2 |

# Special rules for international transport workers

The SRT rules are adapted where an individual is an 'international transport worker' This is defined as someone who:

- holds an employment, the duties of which consist of duties to be performed on board a vehicle, aircraft or ship, while it is travelling or

- carries on a trade, the activities of which consist of the provision of services on board a vehicle, aircraft or ship as it is travelling.

In either case substantially all the journeys must be across international boundaries. The individual has to be present on board the respective carrier as it makes international journeys in order to provide those services.

An individual who has some duties on purely domestic journeys will still be regarded as within the definition if the international duties are substantial (probably at least 80%).

Where an individual falls within this group the implications for the SRT are (broadly) that the individual:

- cannot be non-UK resident on the grounds of working full time overseas
- cannot be UK resident on the grounds of working full time in the UK and
- in considering the work day tie for the STT an international transport worker is regarded as doing more than three hours work where any journey that day commences in the UK and fewer than three hours on any other day.

# Split year rules

The basic rule will be that if an individual satisfies the conditions of the SRT to be treated as resident for a part of the UK tax year then they are resident for the whole of that year. Special rules will apply in certain circumstances to allow a year of arrival or departure to be split into resident and non-resident parts as appropriate. We shall be pleased to discuss whether your plans or circumstances will be eligible for such treatment.

# Anti-avoidance rules

The government wants to ensure that individuals are not able to exploit the rules to become not resident for a short period during which they receive certain types of income or make capital gains. Basically, an individual with a history of at least four out of the previous seven years as a sole UK resident will need to maintain not resident status for at least five UK tax years otherwise certain income and all capital gains made in the period of absence will become taxable in the UK in the next year in which they are resident.

# How we can help

Careful planning is essential to ensure you understand the implications of the Statutory Residence test. We would be happy to discuss this issue with you. Please contact us if you would like further advice.

# 12. Making Tax Digital

Making Tax Digital (MTD) represents a significant change to the way in which taxpayers record their financial information and submit tax returns. At Rowland Hall, we can provide guidance on the key aspects of MTD for individuals in the Essex area.

The government has started phasing in its landmark MTD initiative, which will see taxpayers move to a fully digital tax system.

In this factsheet we outline some of the key issues for individuals including the Personal Tax Account and Simple Assessment.

## Making Tax Digital

Making Tax Digital for Business (MTDfB) was introduced in the 2015 Spring Budget. The government's 'Making Tax Easier' document was published shortly after, and outlined plans for the 'end of the tax return'. It also set out the government's vision to modernise the UK's tax system, with digital tax accounts set to replace tax returns for ten million individuals and five million small businesses.

## Revised timescales

However, industry experts and those within the accountancy sector expressed concerns over the proposed pace and the scale of the introduction of MTDfB. As a result, the government amended the initial timetable for the initiative's implementation, to allow businesses and individuals 'plenty of time to adapt to the changes'.

The mandation of MTD for Income Tax will now be introduced from April 2026, with businesses, self-employed individuals and landlords with income over £50,000 mandated to join first, a change from the original £10,000 limit.

Those with income over £30,000 will be mandated from April 2027.

Following the new approach, the government will not extend MTD for Income Tax to general partnerships in 2026.

## What will be required?

Making Tax Digital for Income Tax is a new way of reporting income and expenses if you're a sole trader or landlord.

Under the new way of reporting, sole traders and landlords will use compatible software that enables them to:

- create and store digital records of their business income and expenses
- send quarterly updates to HMRC
- submit a tax return and pay tax due by 31 January the following year.

Although MTD has been paused for individuals until at least 2026, HMRC has already introduced the Personal Tax Account and Simple Assessment.

# The Personal Tax Account

Personal Tax Accounts (PTAs) are digital tax accounts for individuals that have been created by HMRC, and are pre-populated with information held by it. PTAs are designed to permit individual taxpayers to communicate with HMRC, allowing them to update their financial details and check their tax affairs in real time.

Taxpayers may make use of a PTA to make tax payments, provide bank details to HMRC for tax refund purposes and provide details of taxable benefits from employment: for example, the use of a company car.

Individuals can register for a PTA by visiting www.gov.uk/personal-tax-account. The government predicts that, over time, the requirement to complete and file a tax return will lessen for those with straightforward tax affairs.

# Simple Assessment

Under Simple Assessment, HMRC has the power to assess an individual's liability to income tax or capital gains tax, without the taxpayer having to fill out and submit a tax return.

Simple Assessment may be used to deal with the tax liabilities of:

- state pensioners whose state pension is higher than their personal tax allowance where the tax owed cannot be collected via their tax code.
- taxpayers with PAYE liabilities who have underpaid tax and cannot have it collected via their tax code.

Taxpayers are required to ensure that the information provided by HMRC is correct, and pay their income tax liability online, or by cheque, before a specific deadline, as outlined within the letter they receive. If the taxpayer believes the information to be incorrect, customers are given 60 days to contact HMRC.

Those that miss the deadline are encouraged to contact HMRC in order to discuss their circumstances. Individuals who fail to do so may be subject to penalties.

# 13. INFORMATION SHEET – MAKING TAX PAYMENTS

In the event of you not receiving a payslip from H M Revenue and Customs to enable you to make a payment of tax, you should consider using one of the alternative payment methods, as detailed below:-

## 1. Cheque Payment by Post

A cheque should be made out to "H M Revenue and Customs" and on the Payee line you should show your 10-digit UTR reference number followed by a Capital letter K.

You should also write your name, address and post code on the back of the cheque

The cheque should be posted to:

H M Revenue and Customs, Direct, BX5 5BD

## 2. By Debit Card On-line

Go to www.gov.uk/pay-self-assessment-tax-bill/by-debit-or-credit-card-online and follow the instructions.

You will need to insert your UTR Reference number followed by a Capital Letter K.

## 3. On-line or Telephone Banking, CHAPS, BACS

H M Revenue and Customs Bank Details:-

Account No: 12001039

Sort Code: 08-32-10

In the Account Name/Reference box you will need to show your 10-digit UTR reference number followed by a Capital Letter K.

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