Mercer & Hole

Private Client and Financial Planning

Introduction

At a time when the world has significantly changed, I am reassured by the consistency at Mercer & Hole. It has very much been business as usual for our team who, as always, are providing updates to you all, ensuring you are fully supported through this challenging time.

We have been looking after clients since 1905. Since that time there have been periods of change and adversity during which we have provided direction to our clients in a way which is appropriate for them.

In the current crisis our modern and joined up way of working enables us to provide you with our traditional and strong levels of service that reflect both our heritage and innovation as well as our adaptability. We acknowledged this sentiment in a video about resilience, with a friendly and understanding approach which I hope you have come to recognise over the years.

There is a sense of optimism this week as we await the post-lockdown workplace rules to be announced. These plans will be significant to the economy and getting back to a 'new normal'. I don't know about you, for me, being able to spend time together with family and friends again is something I am waiting for. Nonetheless this will take time and further adjustments by all of us.

The team at Mercer & Hole appreciates our relationship with our clients. Modern technology enables us to meet and see each other on video calls. I have really enjoyed the closeness and understanding we achieve through such meetings as we share this common experience. We are still the same, just working a bit differently!

This newsletter has been put together with you in mind. We thought it is important to focus on real client issues which could be impacting you. I hope you find it useful and a good point of reference when reviewing your own personal situation.

If any of the articles resonate with you and you would like to talk to a member of our team please do not hesitate to contact me or your usual Mercer & Hole contact.

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In this issue

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Support for individuals during COVID-19

If you are an individual, who is neither an employee nor owns a business, you might be wondering about the measures for you – there are some to think about. The team here at Mercer & Hole are very much still here so please do get in touch with us if you would like to talk through your affairs with a friendly and understanding approach.

Tax payments deferral and cash flow planning

The most generous measure is deferring the usual payment date for tax where you make payments each year toward your tax bill. For those who make payments on account, they do so with one payment during the tax year in question (January 2020) and one following it (July 2020) with a catch-up if there is more to pay six months later (January 2021).

You do not now need to make the July second payment on account, but rather it can be carried forward to 31 January 2021. This means in practice, assuming your tax return is finalised and has been filed, that you only need to pay what is actually due in relation to the 2019/20 tax year instead of an estimate in July based on the prior year income.

This will be a considerable help to many people, where they are keen to hold on to as much cash as possible in light of the current uncertainties on their future income. Some clients are already seeing the impact of missed rental payments from properties they let and we are seeing announcements by companies on pausing their dividend pay outs in the months ahead.

Looking further ahead, whilst 31 January 2021 will see the balance of tax due for 2019/20 along with any capital gains tax, for those due to make payments on account, it will also be the date for their first instalment toward their 2020/21 tax bill. As part of our usual tax return completion service, we will be considering and consulting with our clients on whether there is any scope in light of their circumstances for this to be reduced and making an appropriate application to HMRC. It is unlikely to be an automatic deferral as above for the July payment but we are very familiar with preparing calculations and making applications as part and parcel of our service.

Government support initiatives

If you are a landlord, many tenant's may have reduced income which will could impact your income. If you have borrowings to support or are likely otherwise to have a material effect on your income, we can assist with projections and accounts to help you approach your bank. Not all let property activities are "businesses" in technical terms but if you have employees then you may be able to use the job retention scheme.

The job retention scheme may apply to any UK employer so if you have domestic staff on a payroll, it will be worth checking with us to see how this applies to you.

There are some gaps in the government's plans – directors of a personal company often remunerated by taking dividends, for example. We are able to explore how you are affected and what options are available to you.

Residence

Many individuals have found themselves forced to remain in the UK or return here sooner than they had planned. In many cases, people who usually work elsewhere are having to do so from the UK. This could change your tax status. If you are spending money in the UK from overseas, you will need to understand if you must make a UK tax return or could have a UK tax bill.

If you are usually non-resident, you will be familiar with the limit to the number of days you can spend here. Although HMRC accept the outbreak as exceptional circumstances, the maximum number of days to be disregarded is 60. For the 19/20 tax year, this may be manageable but for 20/21, 60 days expires by 5 June so the remainder of the 20/21 tax year is an unknown at this stage. The best advice is to retain all records such as diaries showing your location and whether or not you worked on a given day. Emails of flight cancellations or other evidence that you planned to leave the UK should be retained in case HMRC requires it.

The Mercer & Hole team are happy to further advise on your individual circumstances, the impact of your becoming inadvertently UK resident and how any adverse implications can be mitigated. Conversely if you have been forced to remain in a country outside the UK we can use our friends in TIAG to obtain local advice for you and make sure your affairs are considered on a global basis.

Capital Gains Tax (CGT)

If you have stocks and shares which you purchased or are selling in a different currency, remember that the UK computes capital gains by comparing the sterling value at acquisition with the sterling proceeds. It is, therefore, not uncommon with volatile exchange rates to find a breakeven or loss position in one currency, that is a gain in another. If you are realising some losses now, you need to make sure that the loss is a sterling one. Similarly, for countries who tax on a worldwide basis, such as the USA, recognising a UK loss may not reduce your worldwide tax burden and we should look at your affairs on a global basis.

A new 30 day reporting limit for any disposals of UK residential property comes into play at 6 April. There has been no announcement that this measure will be deferred but as house moves are now strongly discouraged, this may not have the urgency that we had expected. Nonetheless, if you do dispose of a property by way of gift perhaps, after 6 April, you should let us know as soon as you can and ideally before the transaction so that we can make sure you do meet the deadlines in question.

Resilience and Cash flow

Individuals and families should urgently review their cash flow to ensure they have sufficient means to meet their own expenditure and also identify pots of wealth which may be available to assist other family members with significant expenditure. This may be assisting with school fees or other similar large expenditures as well as planning ahead for a time when the economy returns.

There are often still tax implications of making and sometime receiving gifts of family support and we are able to help you find the right path for your family. In these instances, cashflow modelling and more specifically an individual's capacity for loss, i.e. the amount that their investments could fall without putting their financial goals in jeopardy, should be reviewed.

Asking yourself a few basic questions, such as "what are my long-term goals? Has the recent market volatility changed those? Am I currently making decisions based on emotions?" These questions can help with clarity of decision making.

If you have any concerns about how your circumstances are affected by COVID- 19, we are very happy to discuss this with you.

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Time for a review?

Many of us have been meaning to get around to looking at our financial arrangements for a long time. The usual cry is lack of time but with everything around us on hold, it must be an opportune moment to step back and make sure our affairs are all in good order and as we would want them to be.

With the Covid-19 situation, it is inevitable to focus on your own mortality. Do your loved ones know where to find your financial information and -importantly – your Will? Possibly the Will reflects circumstances or assets which are out of date? Are your executors still the right people for you?

It helps you if you have a clear financial plan for your lifetime and helps those left behind if there is a clear plan for your death. You might find it helpful to pull together a "balance sheet" as a summary of all your assets and liabilities perhaps with a list of your advisers as well. We can help you assemble the information and we can then review it with you to ensure your wishes are clear and can be met.

The reality of today's situation is that many of us are having to adjust to a reduced income for themselves or may have to financially support our families for an uncertain amount of time and it is worthwhile checking the most appropriate way to do so. While there are several government support initiatives to assist with keeping businesses afloat and retaining jobs, which we have commented on separately, there are also implications for personal cash flow. Notably the tax payments due at 31 July can be deferred. This may or may not be the right thing to do depending on your cash resources and the amount you will have to pay in January.

As we start the new tax year, we will be thinking about tax return preparation. Now is a good time to bring your records together and send your information to us so that we can maximise the chances of providing you with advice on your liabilities, whether there is anything you could do to reduce the tax (such as making pension contributions or claiming early relief for your gifts to charity) and , at the least, plan your cash flow.

The lockdown will not last forever so take the opportunity to make good use of it. If you would like to talk to us further, we are always happy to help.

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Tax efficient giving to benefit others during the pandemic

In the UK, we have been in lockdown measures since March 23, the sight and silence of closed business, leisure and other activities is familiar to us all. Behind closed doors is the increasing fear and uncertainty many people are now feeling about their day to day income and future financial security.

It is also a time to pause and consider what steps can be taken to assist family members or others. Gifts that could make a difference, large or small and with careful planning, help can be provided in a very tax efficient way.

Cash gifts to family members

There are Inheritance Tax implications to be aware of when making cash gifts to another individual.

Gifts can be exempt or potentially exempt from IHT depending on what they are.

An exempt gift reduces the donor's estate (the person making the gift) immediately without any further conditions attached but a potentially exempt gift reduces the donor's estate once the donor has survived a full 7 years from the date the gift is made.

Making gifts is simple, tax efficient and easy to administer on a practical level. For some, it is going to make sense to consider making gifts during these challenging times. Let's take a moment to consider the sort of gifts that can be made:

Exempt gifts

There is a range of gifts which are small or relatively small in value and which are fully exempt from Inheritance tax:

Small gifts exemption

An individual can make a gift of up to £250 to any person in the tax year and this is fully exempt provided you have not used another exemption on the same person in the year.

Wedding or civil ceremony gifts of up to £1,000 per person (£2,500 for a grandchild or great-grandchild, £5,000 for a child) are also exempt. In order for the above gifts to qualify, the wedding must happen and therefore in the current circumstances, if anyone has made a gift under this heading and the wedding has not been able to take place the gift would not be exempt but potentially exempt.

You can use more than one of these exemptions on the same person - for example, you could give your grandchild a gift for her birthday and also for his or her wedding in the same tax year.

Annual exempt gifts exemption

An individual can make a gift (or gifts) totalling no more than £3,000 to an individual in a tax year and provided that sum is not exceeded the gift(s) is/are exempt.

The good news about this type of gift is that unused allowance from a previous year can be carried forward for one year. Therefore, in the current environment, for a person who has not used this allowance in the tax year 2019/20 or 2020/21, an exempt gift of £6,000 can be made.

Let's suppose a family has two children and neither parent has used their annual allowances for the two tax years above. Each parent can now make a gift of £6,000 in the current year, so £12,000 can be passed to the children.

Article continued over >

Gifts out of income

Another very useful way to benefit children or maybe even grandchildren is to make a gift out of an individual's surplus net income of the tax year. Provided they qualify, the gifts are exempt from IHT. UK tax legislation sets out specific conditions that must be met in order for a gift to qualify:

- The gift formed part of your normal expenditure

HMRC look for a regular pattern of payments and the factors that may be taken into account include the frequency and amounts of the gifts, the nature of gifts, the identity of the recipient and reason for the gift.

- The gift was made out of income

You should be able to demonstrate that the gift was made from surplus net income which ideally arose in the year in which the gift was made, before considering earlier years.

- After the gift you were left with sufficient income to maintain your normal standard of living

This is a subjective test but preparing an analysis of income and expenditure each year is the best way to demonstrate this. As income is likely to be lower than usual in the current year, you will need to bear this in mind. As a general rule the amount of surplus is considered on a year on year basis so a one year dip may not be problematic but should not be overlooked either.

Although there must be some regular pattern about the giving, the amount does not need to be fixed. So, it can be increased or decreased depending on the donor's own needs in a given year. This could be particularly helpful in times where everyone is facing uncertainty of income. You could set up a regular pattern of giving and simply adjust the amounts to suit your own affordability over time.

Potentially exempt transfers (PETs)

A PET is a gift of unlimited value to another individual and which becomes exempt from IHT once the donor has survived a full seven years from the date the gift is made. If the donor does dies within seven years of the date of the gift there will be some tax relief on an increasing scale depending on how many years have been survived.

Inheritance tax is charged at 40% on gifts made within 3 years of the donor's death.

Gifts made between year 3 and 7 years before death are taxed on a sliding scale known as 'taper relief'.

Years between gift and death	Tax paid
less than 3	40%
3 to 4	32%
4 to 5	24%
5 to 6	16%
6 to 7	8%
7 or more	0%

Depending on the age, health and affordability of the donor, PETs can provide a real opportunity to give significant financial assistance to someone who needs it whilst potentially removing significant value from the donor's estate over time.

Gifts to charities

This is also a good time to consider making a gift to your favourite charities who will also be in need of additional support. Giving to charities can be in the form of cash or qualifying assets. The most common is cash gifts.

The donor makes a cash gift to the charity and receives tax relief by doing so by reducing his own income tax liability.

Example:

Tom is a higher rate taxpayer and makes a cash gift of £10,000 to a charity under the Gift Aid scheme.

Gift Aid donations are deemed to be made net of 20% basic rate tax, so the charity can reclaim an additional £2,500 from HMRC. This £2,500 is assumed to be tax Tom has already paid to HMRC. Tom therefore receives 20% tax relief at source as the charity has received £12,500 but it has only cost him £10,000.

Tom's donation	£10,000
Add: Gift Aid	£2,500
Total received by the charity	£12,500

Higher rate and additional rate taxpayers can also claim additional tax relief. As Tom is a higher rate taxpayer, he will also get an extra 20% of tax relief on the gross donation of £12,500, i.e. tax relief of an additional £2,500.

The cost to Tom is summarised below:

Total received by the charity	£12,500
Less: tax relief through Gift Aid	(£2,500)
Tom's donation	£10,000
Less: higher rate tax relief	(£2,500)
Cost to Tom	£7,500

It is possible for a gift in the current year to be "carried back" so the tax relief is obtained earlier positively assisting the donor's cash flow.

Charitable legacies

An individual can also support a charity after death by leaving cash or assets to a charity in his or her Will (a 'charitable legacy').

The charitable legacy is fully exempt from Inheritance tax and will therefore reduce the value of the taxable estate and the amount of tax payable on the estate.

In some instances, a substantial charitable legacy can also reduce the rate of tax charged on the taxable estate from 40% to 36%. This lower rate of tax will apply to an estate if at least 10% of the "baseline amount" has been left to a charity. The "baseline amount" is broadly the value of the estate after deducing all available reliefs and exemptions and the nil rate band but excluding the charitable legacy itself.

A formula clause for the provision to the charity can be included in the Will in order to ensure that the 10% test is met and the 36% rate of tax is secured. If you find yourself dealing with an estate where the Will is not in this format a variation of the Will can be considered.

The purpose of this article is to explain the impact of making gifts in a practical and helpful way and highlight the tax issues to bear in mind. If you would like to discuss the scope of tax efficient gifting during this difficult time please speak to a member of the private client tax team at Mercer & Hole.

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Lockdown and impact on your tax status

The UK Foreign Office have advised against all non-essential foreign travel 'indefinitely' and the government has announced an unprecedented package of financial assistance for businesses, employees, other workers and individuals and rapid and sudden change is felt in the UK and across the globe.

Inevitably, many people are now faced with unexpected circumstances that require immediate guidance. Here are just a few:

Unable to leave or enter the UK

With the UK in lockdown, many people were unable to leave or enter the UK before travel restrictions were enforced. For some, this means they will exceed their intended day count in the UK resulting in UK residence in the UK tax year 19/20 unless the additional days they spend here beyond their control are regarded as 'exception circumstances'. If so, these will be disregarded for the purpose of calculating their total day count in the year. Exceptional circumstances do include national or local emergencies. HMRC recently issued specific guidance on this issue in relation to detention in a country as a consequence of Covid-19. It says circumstances will be an exception if:

- If you are quarantined or advised by a health professional or public health guidance to self-isolate in the UK as a result of the virus
- If you find yourself advised by official government advice not to travel from the UK as a result of the virus
- If you are unable to leave the UK as a result of the closure of international borders and
- If you are asked by your employer to return to the UK temporarily as a result of the virus.

The maximum number of days allowed due to exceptional circumstances in a tax year is 60 and it is therefore likely that if an individual's days spent in the UK due to the Covid-19 crisis are allowed as exceptional and these are the only exceptional days in the year, then the residence position for 19/20 may not be adversely affected.

Example:

An individual carefully plans his day count to be in the UK no more than 90 days in the tax year 19/20 to ensure he is not UK resident under the UK Statutory residence test rules.

He is over 70 years of age and has a health condition that makes him vulnerable under the Covid-19 criteria. He is advised against travelling and to remain in the UK for medical reasons and stay at home. He will exceed his day count in the UK for 19/20 and will be UK resident for 19/20 unless he can claim exceptional circumstances.

The key point about exceptional circumstances is that they must be events outside of a person's control. No one can dispute the unprecedented nature of events during this pandemic, but it is important to have very clear evidence of the precise circumstance that are claimed to be exceptional for this purpose.

To reiterate, this week the UK Foreign Office has tightened travel restrictions further and have advised against all non- essential foreign travel indefinitely. With no end date in sight, none of us know how long these border and travel restrictions are going to last – weeks or even months. But one thing is clear: If restrictions do persist for a very long time it is possible that we will see individuals detained in the UK beyond 60 days. If that happens, there is real risk that some individuals will find themselves resident in the UK (or elsewhere) in a tax year for which they did not expect to be resident unless further guidance on the matter of exceptional circumstances is issued.

For some people, this may mean risk of residence status and tax implications in other jurisdictions. If this results in extension of residence in the UK beyond 15 years then deemed domicile also becomes an issue with the tax consequences attached to that.

It is, of course, hoped that in the event of protracted travel restrictions, HMRC will take a pragmatic and lenient approach. For now, this remains another uncertainty in these already very uncertain times.

Cash flow certainty for individuals

Global stock markets have substantially fallen. Some companies are cancelling dividend payments and investment income will go down. Individuals and families should urgently review their cash flow to ensure they have sufficient means to meet their own expenditure and also identify their pots of wealth which may be available to assist other family members with significant expenditure. This may be assisting with school fees or other similar large expenditures as well as planning ahead for a time when the economy recovers.

To assist cashflow, HMRC is allowing all taxpayers to defer their second payment of account under self-assessment. This is normally due on 31 July 2020 and can be deferred until no later than 31 January 2021.

We can also carry out cash flow modelling with stress testing for our clients and help them plan ahead during these very uncertain times. For many this is as much about giving a layer of comfort as well as identifying steps to take now to defend long term cash positions.

To discuss any of the above in further details please contact a member of our team.

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Sensible changes to pensions restrictions for public sector workers

The Coronavirus Act 2020 has temporarily suspended some of the regulations governing NHS pensions. In addition, the government have now gone a step further by proposing to relax similar rules for the whole of the public sector.

The principles behind the moves are an attempt to remove any barriers currently preventing those individuals with relevant skills and experience from returning to work to help during the pandemic.

The impact of the changes will depend upon which public sector scheme individuals are members of. This article therefore focusses on the impact for NHS Pension Scheme members, given that they will represent the largest proportion of individuals affected. However, a number of the points made will potentially affect a wider audience.

NHS Scheme Pensioners

These measures allow members already in receipt of their pension to return to work or increase their current commitments if they wish to do so, without affecting their pension benefits.

Following the end of the COVID-19 outbreak, there will be a six-month notice period before the suspended regulations will take effect again. Staff and employers will therefore have that period to readjust their working patterns, where necessary.

Pension Tapered Annual Allowance 2020/21

Whilst it was not part of the above legislation, the change in the pension Tapered Annual Allowance rules announced in the recent budget was driven with the needs of NHS workers in mind and should assist those earning more as a result of working longer hours.

Put simply, if you have earnings in excess of £150,000 you were previously likely to have had your maximum annual pension accrual restricted, and as a result face penal tax charges if you remain an active member of the NHS or other public sector scheme. There are other factors involved in the calculation, but the £150,000 income limit is a useful starting point when considering whether an individual is affected.

The threshold at which earnings begin to reduce the level of pension accrual possible was increased to £240,000 at the start of the 2020/21 tax year.

This should mean that far fewer people face tax charges as a result of having excess pension accrual.

Pension Tapered Annual Allowance 2019/20

Many workers may still have excess pension accrual as a result of the previous earnings limit applying in the 2019/20 tax year.

In recognition of this, in England and Wales NHS employers will pay clinicians' 2019/20 annual allowance charges if settled through the "scheme pays" method. The scheme pays method, as opposed to the individual paying, is generally a more tax-efficient way of settling any charges due. Employers may also put individual arrangements in place.

In Scotland NHS staff have been given the option of taking the value of their employer's pension contribution as an addition to basic pay.

Money Purchase Annual Allowance

It is worth noting here the Money Purchase Annual Allowance rules. These restrict annual pension accrual to £4,000 if you have flexibly accessed your pension benefits.

An individual will not have triggered this by drawing income from the main NHS scheme. However, they may have been triggered by someone who has drawn on any Additional Voluntary Contribution benefits or other pension arrangements.

Retired healthcare workers returning to NHS employment will normally be re-enrolled into the NHS pension scheme (or an alternative if applicable).

They should therefore be aware that there is the possibility of their maximum pension accrual being restricted to £4,000 per annum.

Death Benefits

Healthcare professionals may have decided to opt-out of membership of the NHS pension scheme due for Annual Allowance or Lifetime Allowance reasons.

As a result of opting-out, they will no longer be entitled to the Death in Service Benefits that the scheme provides. If you are a frontline worker who has a heightened level of risk of being exposed to Covid-19 you may wish to review that decision.

That said, you should be aware that prior to drawing benefits you will be entitled to Death in Deferment Benefits. Whilst these may be calculated on a different basis to Death in Service Benefits, it is important to be aware that death benefit provision should still be in place.

Can we help?

The temporary relaxation of some of the restrictions outlined above have generally been applauded by industry professionals and will no doubt be a relief for those potentially affected. However, they do require a certain level of understanding.

In addition, the rules covering the Tapered Annual Allowance had only been in place for four years prior to the recent changes and so have the potential to further confuse savers. This highlights the importance of speaking to a suitably qualified professional to ensure correct understanding.

At Mercer & Hole Financial Planning we can help you to review your pension options and how you are affected, whether NHS related or not. For a consultation and to ask any questions please contact Mercer & Hole Financial Planning Directors.

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