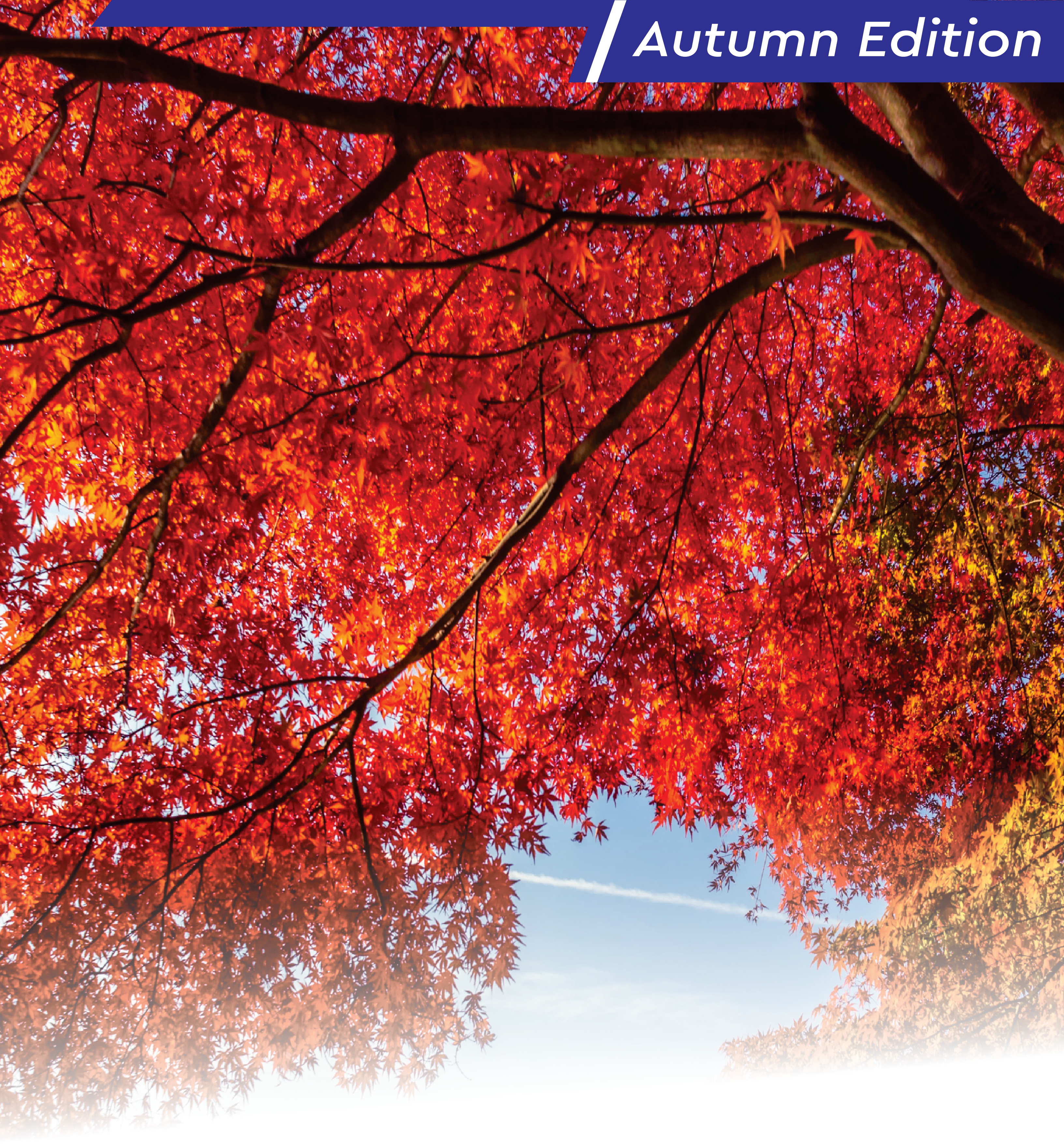


Autumn Edition

MORGAN REACH | LA REVUE

Business & Tax News

Child Benefit – The Good, the Bad and the Ugly

It goes without saying, that the good thing about Child Benefit (CB) is the monthly government payment which can help household finances meet the child's needs. It covers children up to the age of 16, or under 20, if they are in an approved form of education or training.

However, there are various opportunities which can be missed, or issues that can negatively impact upon you surrounding CB.

a) **Remember to make a claim for CB as soon as possible** as the benefit will only be backdated 3 months from the date it is submitted.

b) **If you or your partner, if you have one, have annual income in excess of £50,000 and your family is in receipt of CB, then HMRC can effectively claw back some or all of the benefit from the person with the highest income,** usually through the self-assessment tax return system. This is known as the high income child benefit charge (HICBC).

c) **The charge is calculated at 1% of the CB for every £100 your income exceeds £50,000.** Once your income reaches £60,000 the whole of the CB is clawed back.

Example:

- Tom and Mary are a couple with 2 children.
- Mary has the highest annual income of the two, amounting to £52,000 and completes a self-assessment tax return.
- Tom claims the CB which, for the 2021/22 tax year, is £1,827.
- **There will be a 20% clawback of the CB. Mary will have a HICBC of £365 to pay by 31st January 2023.**
- **Mary could mitigate or wipe out the HICBC by paying a pension contribution out of her net income and/or a charitable gift aid payment.**

d) If you are in a couple, thought should be given as to who should make the CB claim. If **one of you either does not work or has earned income below the national insurance lower earnings threshold limit (currently £6,240), then that person should make the CB claim. By doing so, that individual will protect their state pension position as they will receive national insurance credits until the child reaches the age of 12.**

If your other half could be fully caught by the HICBC because their income is over £60,000, you should still make the CB claim. When completing the claim form you can elect not to receive the CB payment. However, by making the claim you still enhance your state pension position whilst your partner avoids the HICBC.

e) **It is important to note that if you are divorcing or separating you might need to update your details for child benefit. If the parent who is leaving the family home has the highest income and made the original CB claim, they could still find themselves liable to pay the HICBC even though the child no longer lives with them.**

f) Child Benefit can only be paid to one person and this is usually paid to the deemed main carer which is normally the parent the child lives with most of the time. Sometimes this can be difficult, especially if the child is dividing their time between the two estranged parents. Parents can decide between themselves who receives it, but if an agreement can't be reached, then ultimately it will be HMRC who makes that decision based upon the facts of the case. Assuming everything is amicable, there is nothing to stop the person receiving the Child Benefit sharing that with the other parent.

g) If somebody else moves into the family home and their income is in excess of £50,000, they could find themselves liable to the HICBC even though the child is not theirs.

Tip

By registering for CB, your child will automatically be notified by HMRC of their national insurance number at the age of 15 years and 9 months. By not doing so, the child would have to request a national insurance number and could be waiting up to 16 weeks to receive it. Please do not hesitate to contact us to discuss the ramifications for you of claiming CB.

Freeports – What's all the fuss about?

There was a great fanfare of trumpets in March 2021 when the UK Government announced the location of the first 8 approved Freeport sites at East Midlands Airport, Felixstowe & Harwich, Humber, Liverpool City Region, Plymouth and South Devon, Solent, Teesside and Thames. More Freeports are likely to be approved over the coming months in England, with the devolved governments of Scotland, Wales and Northern Ireland considering their position on the Freeport concept.

What is the purpose of them?

- The Freeports are located in deprived areas which have high unemployment.
- **The aim is to incentivise businesses to start up in or move to these Freeports** in order to regenerate the area and create jobs.

What are the sort of incentives offered to businesses to locate to a Freeport site? Until 30th September 2026:

a) Land purchased to be used for the purposes of a trade or business will **avoid stamp duty land tax.**
b) Expenditure incurred in respect of plant and machinery will attract **100% capital allowances tax relief.**
c) The capital cost of building, or converting or renovating a commercial building, will attract a **structural buildings allowance tax relief at an annual rate of 10% of the total allowable expenditure.** Outside the Freeport site the rate is only 3%.
d) **Full business rates relief for all new businesses** and in certain circumstances, existing businesses who expand.

There is also an employment incentive.

From 6th April 2022, where new staff are recruited, the employer will pay 0% employers' national insurance on the first £25,000 of earnings for each eligible employee. The employee must spend 60% of their working time within the Freeport.

There are also customs and trade benefits.
The tariffs and import VAT on goods coming from abroad into the Freeports would be suspended until the goods are released into the UK market. No charge at all would apply if the goods were sent overseas.

Raw materials can be imported tariff free into a Freeport, manufactured, and then the finished goods can be brought into the domestic UK market effectively at a lower tariff rate resulting in an overall cost saving. On top of that there will be a streamlining of the planning processes, plus matched/part matched public funding for investing in the Freeport and its infrastructure.

Tip

If this may be of interest to your business, please do not hesitate to contact us and we would be happy to carry out a review to see if it is, indeed, the right fit for you.

Holiday Lets – Heads above the tax water

Over the last few years, the tax legislation has been cruel to property investors with additional land tax charges, heightened capital gains tax rates and loan interest relief restricted to only a 20% tax credit.

However, those property investors who have rented out Furnished Holiday Lets (FHL) have been able to cling on to longstanding tax breaks which their long term let counterparts can only dream about, thus keeping their heads above the tax water.

From an income tax perspective to qualify as an **FHL, the criteria** are usually based upon a tax year:

- The property must be **adequately furnished.**
- It must be **available to be let for 210 days** a year.
- If rented out to the same person for more than 31 days, **there should not be more than 155 days of this type of long-term accommodation** per year.
- **The property must be rented out to the public for at least 105 days a year.** It may be possible to maintain the FHL criteria as long as this particular rule is met one in every 3 tax years.

There are **many potential tax breaks** if the FHL criteria are met?

- You may be able to **claim capital allowances** (depreciation) for furniture, equipment and fixtures and fittings against your FHL profits.
- **Tax relief on your loan interest is given at your marginal tax rate** as opposed to the restrictive 20% tax credit for long term lets.
- **FHL profits count as 'relevant earnings' for pension** purposes. Subject to the usual pension restrictions, **you may be able to make pension contributions on that basis and enhance your pension provision** and, potentially, claim additional tax relief to reduce your overall tax liability.
- **You may be able to defer a capital gains tax liability following the sale of a business asset** by rolling over the proceeds into a FHL acquisition. It might be possible to do likewise on the sale of a FHL itself and roll over proceeds into purchase of an asset used for another business you run.
- **You personally may be able to avoid capital gains tax on the gift of an FHL** to say, a family member. **This may also be beneficial from an inheritance tax planning perspective** assuming you survive 7 years from the date of the gift.
- If properly structured and the sale is deemed to be a disposal of the FHL business, **you may pay capital gains tax at only 10% as opposed to possibly 28%.**
- **You may be liable to pay business rates (BR) as opposed to council tax**. In 80% of the UK this is likely to be a lower amount. The BR criteria is based upon a calendar year. The property needs to be available for let at least 140 days a year. In the case of Wales, it has to be actually let for 70 days, Scotland will be following suit from 2022 onwards. **You may be able to claim Small Business Rates Relief** which could mitigate or wipe out the business rates due.

There are clearly other factors to consider when deciding whether or not to go down the FHL route:

- The likely **rental yield**.
- The **finance costs**.
- Additional management time and costs.
- The potential VAT implications.

Tip

We can help carry out a review to see if the FHL option is right for you plus, where it is applicable, help you monitor whether or not you are continuing to meet the FHL qualifying criteria (both from a business rates and income tax perspective). Don't forget also, properties rented out in EEA countries can fit the FHL criteria.

Late Payment Penalties with HMRC VAT

The Government has announced a couple of **new penalty regimes, one of which will impact upon those of us who fail to pay our VAT or income tax on time.**

- **For VAT registered businesses, the new rules will come into effect for accounting periods beginning on or after 1st April 2022**
- **From an income tax perspective,** if you are a sole trader and/or a property landlord, whose turnover is in excess of £10,000 per year, **then the new late payment penalties will kick off from 6th April 2024, as that is the date the delayed Making Tax Digital for Income Tax comes into force.**
- Anybody else who completes a self-assessment tax return may face the new penalty rules from 6th April 2025.

From those dates, **HMRC will be able to impose two penalties for late payment.** The Revenue have cleverly called them 'the first and second penalty' respectively.

The first penalty comes in two parts:

- **If you have not paid the tax within 15 days** of when it was due, you will suffer **a penalty of 2% of the tax outstanding.**
- **If this situation is still the same after 30 days, then a further 2% penalty will be charged.**

The second late payment penalty then comes into play from day 31, charging 4% per annum, on a daily basis, of the tax still unpaid.

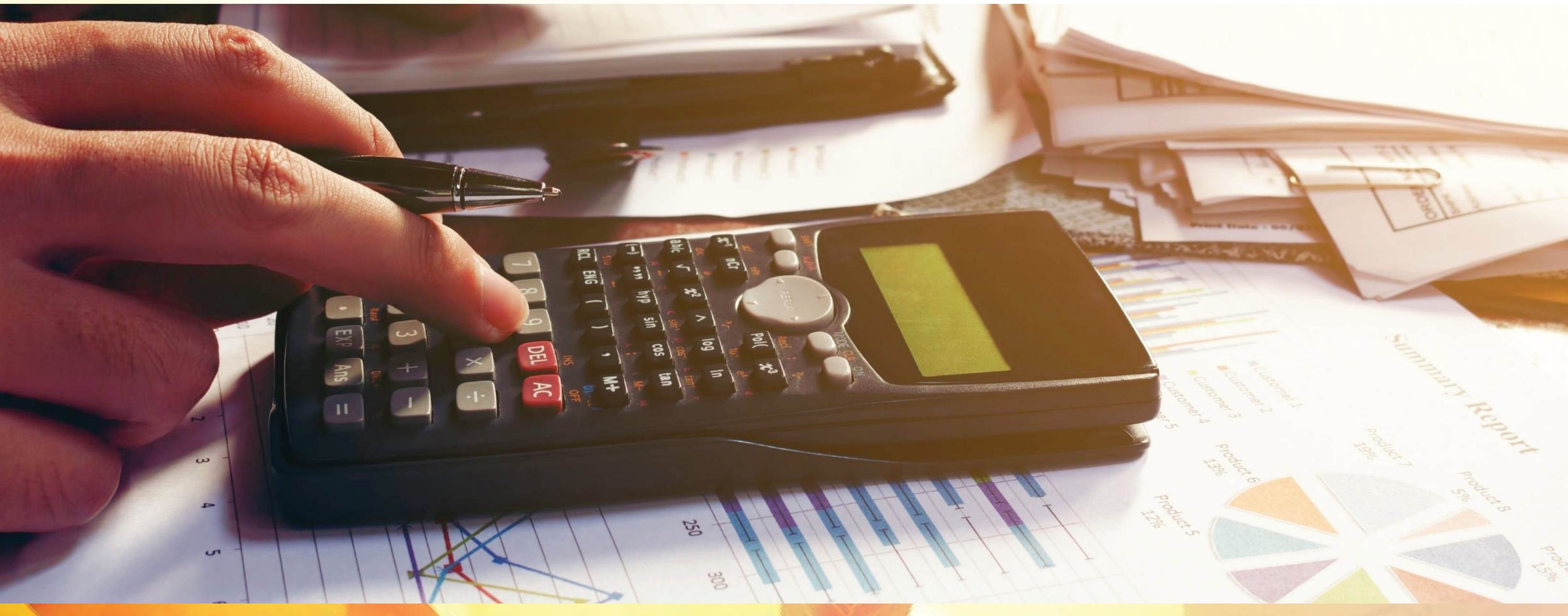
HMRC will have their very own VAT. If you believe you have a reasonable excuse for not paying on time, you can ask HMRC to review it. Unlike in football, if, following the review, HMRC stick by their penalty position, you may be able to appeal to the courts.

If you know you cannot make the payment on time then you will be able to approach HMRC and request a time to pay (TTP) arrangement. Assuming when a TTP is put in place, the penalty may not arise or the penalty clock will stop running from that date onwards as long as the payments are kept up to date.

Let us look at an example.

- Mary owes £15,000 in tax and fails to pay by the due date and has still not paid 25 days on from there.
- On day 25 Mary enters into a TTP arrangement with HMRC.
- Mary has already incurred the 15 day 2% first penalty of £300.
- She has avoided the 30 day 2% first penalty and the daily second penalty of 4% per annum, because the penalty clock stops from the date of the TTP.

It is important to remember that, **although Mary has mitigated the late payment penalty, she will still have late payment interest accruing on the outstanding tax until payment has been made.** The interest will be charged at a rate of 2.5% above the Bank of England base rate.



Tip

If for one reason or another you know you cannot pay the tax on time, then do not wait around for the penalties to stack up, organise a TTP arrangement with HMRC. **We can help negotiate with HMRC to arrange a mutually agreeable TTP.**