

*Planning Opportunity for
BPR*

*Update on new IHT
legislation*

Tax Newsletter

October 2013

Welcome to the October 2013 edition of the Argenta Tax & Corporate Services Limited ('ATCSL') Tax Newsletter. The purpose of this newsletter is to keep our clients informed of tax issues affecting the Lloyd's market. Please do write to us if you would like to see particular issues covered in the Newsletter or have any comments on the articles published.

Business Property Relief

Business Property Relief (BPR) is an Inheritance Tax relief which can result in 100% of the value of a trading business or company being excluded from an individual's estate at death. Many readers are aware that NameCos and Lloyd's LLPs are generally able to qualify for the relief.

For Lloyd's Members with other business interests it may be possible to restructure their interests so that the value of non-qualifying assets (such as property portfolios) can also benefit from the relief. Please speak to your usual ATCSL contact to learn more about this exciting opportunity.

Inheritance Tax – Restricted Deductions

In the April 2013 edition of our Tax Newsletter, we referred to the proposed new rules introduced in the Finance Bill 2013 on restrictions and conditions that must be met before a liability is allowed as a deduction from the value of an estate.

We were concerned that those individuals who have borrowed monies secured on, say, a residential property with the borrowed monies invested in shares in a Nameco could be affected. Fortunately, the draft legislation has been subsequently amended as it has been recognised that the original proposals were inequitable in that they caught long-standing arrangements entered into at a time when no such restrictions applied. That said, the fact that the restrictions apply only to liabilities incurred on or after 6 April 2013 creates a risk that a refinancing of existing debts may inadvertently fall foul of these new rules.

*Take action to reduce
income tax on SRF*

*Is it time to consider
having AIM Shares in
your ISA?*

Special Reserve Fund Releases

Do you hold a share portfolio in a Special Reserve Fund (SRF)? Has your unlimited liability come to an end? The release of the SRF will be charged to income tax at your marginal tax rate. We may be able to help you reduce the income tax liability which has arisen due to any increase in value of the SRF since 31 December 2012. To benefit, you need to act soon so that the SRF is released prior to 31 December 2013. Contact us now to see if we can help you reduce that liability.

CGT and Main Residences

It is generally assumed that the sale of a main residence is free from capital gains tax. Whilst on the whole Principal Private Residence relief (PPR) applies, taxpayers should be aware that it is not always the case, especially if the property includes land of greater than an acre, or it is deemed by HMRC as not being used as a residence.

Recently there have been several tax cases considering what constitutes a residence. You might think that that is an easy question, but for PPR to be available, a taxpayer must show the necessary degree of permanence, continuity, or expectation of continuity. Short term occupation or ownership whether intentional or not, may mean that HMRC could challenge any subsequent claim for relief.

Where a property includes land of greater than an acre, HMRC will look at the 'size of character' of the property in relation to the area that is required for reasonable enjoyment of the home.

ATCSL has enjoyed success with HMRC in this area, arguing that a large area of land qualified for PPR relief.

Inheritance Tax – ISAs

Many taxpayers have been able to build up substantial ISA portfolios, either through cash or stocks and shares, or both. With effect from August 2013 it is now possible to hold AIM portfolios within an ISA. Shares quoted on AIM generally qualify for BPR (subject to some exceptions) so that the value of the portfolio can be excluded from IHT after being held in the ISA for 2 years.

This is a great planning opportunity for clients who want to benefit from income tax, capital gains tax and now IHT relief on an investment.

Undisclosed Income

If you have undisclosed income from assets, or investments in the Isle of Man, Guernsey or Jersey, then you have up until 30 September 2016 to declare the income and gains, plus pay the appropriate tax, interest and penalty. After that date HMRC will automatically receive information from island banks identifying all account holders. Those who ignore the disclosure opportunity will risk criminal prosecution, a significantly higher penalty charge, plus having their names published

Life Assurance Policies

Care needs to be taken when considering a withdrawal from a life policy that has multiple ('cluster') sub-policies. There are many variables which affect the way in which monies can be withdrawn, based around the amount withdrawn in relation to the entire policy, the length of ownership and whether or not prior withdrawals have been made.

You should take advice before a withdrawal to minimise any potential tax liability. In the first instance your policy provider should be able to inform you of the consequences of a withdrawal, otherwise please speak to your usual ATCSL contact.

Furnished and Unfurnished Lettings - Expenses

From 6 April 2013 the renewals basis claim for items such as moveable furniture, TVs, white goods, carpets, curtains, linen, kitchenware etc has changed. The tax enthusiasts amongst you will know that unfurnished lettings have never qualified for the renewals basis, nor the 10% wear and tear allowance because these reliefs only apply to furnished lettings. So what is a furnished letting? Broadly, it is where the tenant can walk into a property and start living in it immediately, without needing to bring any movable furniture.

Furnished lettings can no longer benefit from the renewals basis and can only claim the 10% wear and tear allowance. The relief is calculated at 10% of net rents i.e. the gross rental income less expenses/services that would normally be borne by the tenant, such as council tax, service charges, but have been paid by the landlord. The loss of the renewals basis could have a significant impact on the rental income of clients where there is a high turnover of tenants, for example student accommodation where furnishings are replaced more frequently.

For further details on the taxation services provided by ATCSL or any further information on the articles included in this newsletter please contact us:

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*Beware the new
restrictions on property
expenses*