

Issue: Tax Nightmares (October 2009)

Politicians have been all too happy to shout about their planned spending cuts recently, but with the majority of UK debt still unaccounted for, there has been a resounding hush when it comes to the sticky issue of tax. Here, we share our thoughts on what lies ahead.

Capital Gains Tax: A Nightmare on Downing Street?

Halloween is nearly upon us, and we are all used to giving young tricksters a quid or two for a peaceful life. However, this year it may be more than kids we have to worry about. Yes, word is that Gordon and Alastair are also doing the rounds, cap in hand, trying to fleece the good old public and boost Government coffers.

But, with income tax rates rising to 50% from next April, together with planned rises in VAT, stamp duty and National Insurance, there surely can't be further tax rises in store?

Well, the sceptics amongst you will have noted how quickly Labour and the Tories battled to announce big spending cuts next year – all to demonstrate their willingness to tackle our growing fiscal deficit. With the Pre-Budget report due shortly, a full Budget in March or April next year followed by a post-election Budget in June or July, there must certainly be cause for concern?

So what might be in the firing line? Well, the UK's main rate of capital gains tax of 18% now looks precariously low when compared to the 50% tax payable shortly by high earners on "income", and also the headline CGT rate of 40% that applied from 1988 through to 2008. Business owners also benefit from an effective 10% rate on £1m of gains as a result of a late concession brought in when taper relief was abolished. However, this relief now looks marginal in the scheme of things and may also be up for grabs. Some commentators suggest that a return to a 40% rate is just around the corner.

But who will grasp the nettle? Will it be Labour in a pre-election demonstration of economic prudence, or will it be left to possible successors to deliver the bad news? Either way, taxpayers should be giving careful consideration now to what actions they can take to "bank" their position, should our worst Halloween nightmare come true!

Target is already gearing up for action and we have some ideas up our sleeve, should the "spectre" of higher CGT rates rise from the economic ashes. If you are concerned about your position you should speak to your Target Consultant as soon as possible.

Also covered

... Tax cheat hotline

... Are you leaving your loved ones with a problem?



“Tax cheat” hotline increases risk of HMRC investigation

Taxpayers are now more exposed to risk of investigation by HMRC, following the launch of a confidential online reporting system to identify “tax cheats”. The new HMRC “hotline” means that it is now easier for people to make anonymous tip-offs over the internet, leaving taxpayers at increased risk of a costly investigation - despite the fact that their tax affairs may be perfectly in order.

Taxpayers don't necessarily have to be guilty of tax evasion or fraud to be “dobbled in”. Consider the disgruntled employee, ex-partner, or envious peer, all of whom can provide information to HMRC anonymously, and regardless of whether there is any substance to the allegations. HMRC will take each tip-off seriously and may raise an investigation into that specific issue, or into the taxpayer's wider affairs.

“take proper tax advice”

More generally, enquiries into personal and corporate tax returns are likely to increase given HMRC's wider investigative powers, and a harsher position now on prosecution and penalties. Investigations are costly for the taxpayer, even if at the end of the day no discrepancy is found.

The key messages for taxpayers are therefore to:

- Ensure that their tax affairs are in order and take proper tax advice, where appropriate
- Where discrepancies or errors exist, consider making full disclosure to HMRC to reduce the risk of significant penalties, or even prosecution
- Take proper advice when it comes to tax planning. Significant tax savings can be made through legitimate planning techniques, many relying on HMRC sponsored reliefs, and “pub tax planning” should be avoided at all cost!

Tax investigation insurance is a very effective way to protect individuals or businesses from financial risk. For a small annual subscription, Target offers a low cost scheme to provide clients with up to £100,000 worth of our time in the event of an enquiry by the HMRC, allowing us to dedicate the time we need to achieve the best result for the client.

Are you leaving your loved ones with a problem?

Most people have some form of life assurance or pension plan which will pay out on their death. It is fairly standard these days to have this written in trust so the payout goes direct to your family and does not form part of your estate, which is subject to 40% Inheritance tax.

The problem

Whilst this is essential planning, leaving the funds direct to the surviving spouse or children can cause problems. For the surviving spouse, the payout will become part of their estate for inheritance tax purposes and will be subject to 40% inheritance tax on their death. If the funds are left direct to your children, not only does the surviving spouse not benefit, but you could end up paying out substantial funds to young children who are not equipped to deal with it. If your children are older, they may prefer the funds to pass direct to their children.

Either way these are problems that can be avoided.

The solution

You can create a simple Discretionary Trust now which will receive the death benefits from your life assurance policies or pension plans. The beneficiaries can be very wide to include the surviving spouse, children and grandchildren. In this way the Trustees can control who receives benefits and when, taking into account the wishes of the Settlor. The funds in the Discretionary Trust do not form part of the estate of any of the beneficiaries for inheritance tax purposes, which will save 40% inheritance tax on their death. However, trusts do have inheritance tax charges every 10 years of up to 6%, although this may be a small price to pay for longer term IHT protection.

Couples will need separate trusts to receive funds from their own policies and plans.

Action

Target can advise you on whether a trust arrangement is suitable in your situation. We can then arrange for the trust to be set up and we will ensure that the death benefits of all your life assurance and pension plans are directed to the trust.

For more information on these or any other tax-related topics, please do not hesitate to contact us.

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