The Premier Partnership Limited

Your Family Office

Farewell to 2020 (At Last!)

Welcome to our Winter Newsletter and our first publication of the year, following a year we all want to forget.

No one could have predicted the way that 2020 would have turned out, from what was a very promising start in January and February. Remarkably at the end of November, global stocks were on track for their best month ever, propelled by a series of Covid-19 vaccine breakthroughs and optimism on the final outcome of the US Presidential Election, which of course was finally won by Joe Biden after a fairly ill tempered Election. Companies which are poised to benefit most from an economic recovery - collectively called 'value' stocks - have been setting the pace in major markets, as the froth cooled on 'big tech' stocks such as Apple and Amazon. This does not mean 'big tech' is finished, and we will do more on this in our Investment Report soon.

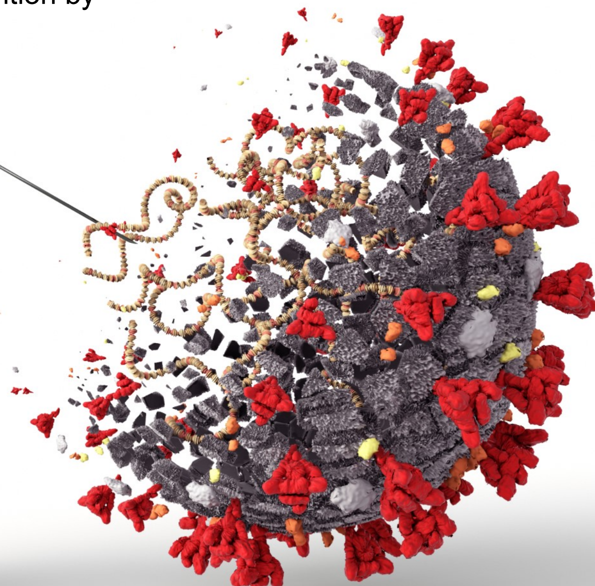
The US Election coupled with the vaccine news provided a significant tail wind to global markets, and with a rotation underway from the technology giants (growth stocks), to the aforementioned 'value' stocks. There could be some considerable way to go as the economic recovery gathers pace.

The Chancellor laid out his initial spending plans for the UK economy in his Autumn spending review, with perhaps the biggest talking point being a public sector pay freeze.

Both the International Monetary Fund (IMF) and the Institute for Fiscal Studies (IFS), in conjunction with the Chancellor's comments, have emphasised that at some point in the future, restoring stability to public finances will be necessary, and this will inevitably involve some form of tax rises.

The Government and Central Banks support appears to have carried economies through the worst of the Covid-19 crisis, with the vaccine cavalry arriving at the bottom of the hill. The enormous amount of debt that Global Governments have incurred in fighting the pandemic and its effects, will result in a very extended period of low interest rates, and ad-hoc, but continuing intervention by Central Banks in Monetary Policy stimulus.

Our overview for 2021 depends upon the vaccine roll out and its success thereafter, and again there will be more on markets in 2021 in our separate Investment Report. It will take the first half of the year for the logistics of the vaccine delivery to get fully on stream, and if successful, there should be a robust economic recovery in the second half. We believe therefore that overall economic activity in the developed markets will remain suppressed in the first quarter of 2021, and possibly the second quarter as well. However, if all goes well there will be a very meaningful bounce in activity in the second half of the year, as the pent up demand is unleashed and life starts to return to normal. Whatever that may look like going forward.



NewsLETTER

The Accidental Landlord?

The buy to let sector has been on the radar of the Chancellor and HMRC for a number of years. There has in the last couple of years been a number of tax changes that have adversely affected buy to let landlords.

We use the title of this article 'The Accidental Landlord' as an indicator of the position some clients find themselves in, from an inheritance of a property, or a second relationship where both parties have existing properties. They may not deliberately set out to become a 'landlord', but find themselves in that space, without the knowledge of their tax or liability position. So in this article we will explore those tax rules.

TAX

The main changes have been:

The introduction of a 3% Stamp Duty Land Tax (SDLT) surcharge of the purchase of additional residential properties.

The removal of higher rate tax relief on mortgage interest paid on borrowings to purchase buy to let investments.

A tightening of the Capital Gains Tax (CGT) rules that apply to the disposal of buy to let properties, being restrictions on lettings relief and principle private residence relief, and a shorter payment deadline for CGT on residential property gains.

Whilst we are not trying to put clients off actively and deliberately investing in property as a portfolio diversifier, it is very important that clients understand these negative aspects of being a landlord.

There are however some allowances and reliefs available to combat these negatives.

There is currently a SDLT holiday period in force, where a purchaser would pay no tax on the purchase of a residential property up to £500,000 in value. This will last up to March 2021. For would be landlords, this means they would only pay the additional 3% surcharge, not the initial SDLT charge (if applicable). So if you want to get into the property market this could represent a big saving.

CGT has been targeted by the Chancellor as a potential tax to increase to help pay for the costs of Covid-19, so if you do find yourself 'accidently' owning a second property, consider splitting the title to joint ownership with your partner to utilise each other's individual CGT allowance. Gains are taxed at an individuals marginal rate, so avoiding gains being taxed solely on a higher rate tax payer could produce a further considerable saving on sales taxes.

For Income Tax purposes, the same reasoning applies. Utilise the non or lower tax payer's allowances by diverting rental income input to that individual. So if a property is jointly owned, consider the position. Where a couple own a property on a 50/50 basis the rental income input will be assessed equally. If one partner is a higher rate tax payer, and the other a basic or even a non tax payer, this is not efficient. However, it is not just a case of deeming the income to be diverted to the lower tax payer.

Where two or more persons are jointly registered as owners of a buy to let property, they will usually hold the property upon trust for themselves, either as beneficial joint tenants, or beneficial Tenants in Common, The taxation of the rental income therefore is based on beneficial ownership, and not legal ownership. So if the balance of ownership is altered to say 70/30 under a Tenants in Common agreement, then the income assessment is also split accordingly and the owners will be taxed on the proportions that they own.

However, this position is modified if the individuals are married or have a civil partnership, and are living together. In such cases income tax legislation treats the couple as beneficially entitled to the income in equal shares, regardless of their entitlement position.

Fortunately, additional legislation allows co-owning spouses to elect to be taxed on their actual entitlement to income, thereby overriding the rule above, but this must be done via a physical completion and return of HMRC Form 17 - Declaration of beneficial interests in joint property and income. But note - the split of income declared must be in line with the actual legal ownership position. So whilst that action can correctly divert the income to the relevant taxpayer, the completion of Form 17 implicitly means that the ownership of the property is automatically changed to that of 'Tenants in Common', and so on the death of one of the joint owners, the other will not automatically inherit the deceased's share. Therefore a correctly drafted Will is vital in this situation, so each partner should include in their Will how their property share is to be inherited on death. Buy to let property ownership can be very beneficial in the right circumstances, such as providing an income from invested assets in retirement. However, this is an eyes wide open decision if you wish to make it, so take advice prior to taking the plunge, and do not get taxed as an 'Accidental Landlord'.

Property Tax Planning On Death

We are asked many times during client conversations about how a property can be 'excluded' from an estate, either for Inheritance Tax calculation purposes, or to avoid the main residence from being included in a long term care cost assessment. These are very wide subjects indeed, but in simple terms, the answer we usually give is one of 'things can be done - but they will have consequences!'

The main taxation areas of planning with a main residence are, Gift With Reservation (GWR), Pre Owned Asset Tax (POAT), and General Anti-Avoidance (GAA) legislation. As you will see, and would expect, HMRC have got this covered.

The GWR and POAT legislation applies where a donor continues to benefit from property, after a gift is made. However, if planning is left until death, these two pieces of legislation will not be relevant. In addition, with the introduction of the transferable IHT Nil Rate Band (NRB), the incentive to carry out complex tax planning procedures prior to death has considerably diminished - dependant upon the value of the property. The further later introduction of the transferable Residence Nil Rate Band (RNRB), for those that leave the family home to direct family descendants, diminishes the need for this type of planning still further.

We have written several times in our Newsletters about NRB and RNRB, but just as a refresher here is the gist:

Transferable Nil Rate Band

For deaths occurring on or after 9 October 2007 it is possible for the executors of a deceased person to make a claim for any unused portion of a former spouse's or civil partner's Nil Rate Band (TNRB), irrespective of when that person died. A maximum of 100% of the deceased person's allowance can be transferred, and it can be accumulated on more than one occasion, for example, if a person has had more than one spouse.

Residence Nil Rate Band

The Finance Act (2) 2015 introduced the Residence Nil Rate Band (RNRB) for Inheritance Tax planning on the main family residence, when a home is passed on death to the lineal descendants of the deceased on or after 6 April 2017. The maximum amount of the band has now been reached in the 2020/21 tax year and is £175,000 per person.

For many estates, these two introductions of planning legislation, has largely removed the need for planning with the main residence prior to death, of the first of a couple to die. But we still see Wills everyday from deceased estates, where far more complex Will and Discretionary Trust planning has been put into older Wills, and whist there still may be a place for the use of such structures, to a large extent, allowances now of £1 Million of IHT allowance between a couple, will cover a very large percentage of planning requirements for the main residence, which still remains the largest asset of 98% of the population.

So don't be tempted by planners who tell you how complex a Will should be to be effective! Simple is better and more tax efficient in being able to use the relevant allowances.

Why You Need to Know

You need to know when it is appropriate, and when it is not, to do IHT planning with an individual's main residence, and be aware of any pitfalls when doing so. As for all IHT planning, the options for planning with the main residence are:

- **Planning through lifetime gifts**
- **Planning through the Will**
- **Provision through life assurance**

Giving a property or a share in that property in a way that is acceptable and effective to all parties, and be effective for IHT, is likely to prove very difficult during the owner's lifetime and largely unnecessary on the death of the first of the couple to die, following the introduction of the NRB and the RNRB detailed above. Where estate values exceed £2 Million, bespoke planning would be required, but for the vast majority of estates, simple planning works.

Given the difficulty in IHT planning with the main residence, and for owners who do not wish to over complicate their lives, other assets could be considered for gifting, or, as we referred to earlier, the provision of planning for liability via life assurance is a well trodden and affective path to follow.

As always, with any tax planning, take advice!

Equity Release

The demand for later life lending has grown dramatically in recent years, as the Bank of Mum & Dad has opened its doors even wider. The option of drawing capital from your home, with potentially no monthly repayments, may appeal to people who are asset rich but cash poor, as they unlock the wealth contained in their properties.

Regardless of the peaks and troughs witnessed in property market values, the real value of UK property assets has increased significantly over the years. So raising cash by releasing equity from your home has become increasingly popular.

Back in the 1980's equity release schemes were dogged with scandals, poor and expensive products, high charges and rogue advisers, that all left people with a dim view of equity release potential. Things have got much better now, assisted by much tighter regulation. There are broadly two types of equity release available, The Lifetime Mortgage and The Reversion Scheme.

The Lifetime Mortgage

A Lifetime Mortgage scheme releases capital from the property via a secured loan, which is repayable with all outstanding accrued interest on death.

The Reversion Scheme

With a Reversion Scheme, all of, or more commonly, a percentage share in the property is sold to usually a bank or insurance company, who in turn grants the seller the right to continue to live in the property (usually rent free), for the remainder of the seller's lifetime, and in exchange the seller receives a capital sum for the reversion.

The company granting the reversion remains entitled to its proportionate part of the property until the death of the seller. So as an example, if a reversion is arranged for £250,000 on a property value of £500,000 the reversion company owns 50% of the property. Subsequently if the property is sold for £750,000 the reversion company will own 50% of the final value (in this example (£375,000).

Clients are free to use the released capital for whatever purpose they wish from either type of scheme. The majority of uses centre around investing the capital to produce future income, or for inheritance tax planning. The scheme capital released can also, and is widely used, to fund long term care. This article is not about recommending equity release to clients, because as with all financial planning the first question is 'What do you want to do?'

If you think equity release may be a solution for you, first of all make sure you have considered all the additional options, and that you are receiving all the State benefits you are entitled to. Work out what your income and your budget is, and review how this might change in the future. If you still have an existing mortgage do you want to take on more debt. If your equity release is for home improvements or additions, make sure you have checked with your local authority to see if you may be eligible for grants. Get expert and independent financial and legal advice. Most of all - do your homework.

Different products have different features, such as being allowed to make monthly payments to avoid a large build up of interest over time. Equity release is not right for everyone, but it can be a well regulated and proven path for people looking to raise capital to improve their lives. It is also possible that equity release may affect your entitlement to State benefits, and of course at the end of the day the value of your estate will be reduced to beneficiaries and legatees. The increasing development and flexibility of equity release schemes reflects the growing popularity of using property assets to meet current life cash requirements. A recent survey by the Just Retirement Group, showed 7 out of 10 people aged 45-64 see property wealth as important to their later life needs.

So if you are considering equity release, and for many people it has proven successful already, make sure you take advice first, before commitment.

Please remember that past performance is not a guide to future performance. The value of investments and the income from them can go down as well as up and investors may not get back any of the amount originally invested. Exchange rate changes may cause the value of overseas investments to rise or fall.

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