CONTENTS

IHT INVESTIGATIONS ROSE BY 183 IN 2018/19

EMERGENCY BUDGET: ANOTHER TIMING POINT

HELP TO BUY ISAs – QUARTERLY STATISTICS

ENTERPRISE INVESTMENT SCHEME APPROVED KNOWLEDGE-INTENSIVE FUND – NEW LEGISLATION

FIRST-TIME BUYER STUDY PUBLISHED BY SANTANDER

VULNERABLE TAXPAYERS

COMPARING CONSERVATIVE AND LABOUR TAX STRATEGIES

WITHDRAWAL RATE FOR AUGUST 2019

Published by Technical Connection Ltd,
7 Staple Inn, London, WC1V 7QH.
Tel: 020 7405 1600 Fax: 020 7405 1601
E-mail: enquiries@technicalconnection.co.uk
www.techlink.co.uk

IHT INVESTIGATIONS ROSE BY 183 IN 2018/19

Last year we highlighted the results of a Freedom of Information (FoI) request from UHY Hacker Young to HMRC for data on investigations into inheritance tax (IHT) returns. This year, Quilter have asked the same question and received a very similar answer.

In 2018/19, HMRC launched 5,537 investigations into IHT returns, against 5,354 in 2017/18. The 3.4% increase is smaller than last year, but then HMRC puts the number of IHT liable estates at 'about 22,000' in 2018/19, 2,500 fewer than in the previous year. The decline is almost certainly due to the impact of the residence nil rate band, (RNRB). Many of the returns received in 2017/18 would have related to deaths before 6 April 2017, which would have been before the RNRB came into being.

The simple maths suggests that HMRC are investigating 25% of the tax returns of estates that pay tax. However, that is an illusion. As the Office of Tax Simplification (OTS) indicated in its recent report, only about 9% of estate returns result in an IHT liability, suggesting investigations cover only about 2.5% of all returns.

Unfortunately, that proportion is also misleading, as HMRC is going to concentrate its efforts on larger estates where they can get more tax bang for their investigative buck.

COMMENT

As we said last year, the level of investigations is a reminder that HMRC sees IHT as an area *where scrutiny is rewarding. That is unlikely to change, whatever happens to the OTS recommendations.*

EMERGENCY BUDGET: ANOTHER TIMING POINT

The media has been paying much interest of late to the arcane practices of parliamentary procedure and the focus has been on what the Government can do – or choose not to do – by 31 October. The Institute for Government (IfG) has just published a paper, "Voting on Brexit", that takes a detailed look at this area and adds further weight to the idea that there will be no Budget in September. The IfG's conclusions are:

- It is very unlikely the UK will be able to leave the EU with a deal on 31 October;
- MPs can express opposition to no deal but that alone will not prevent it;
- Backbenchers have very few opportunities to legislate to stop no deal;
- A vote of no confidence would not necessarily stop no deal;
- There is little time to hold a General Election before 31 October; and
- A second referendum can only happen with Government support.

One survival-to-Halloween tactic, which the IfG highlights, is for the Government to minimize the opportunities for MPs to disrupt key legislation or add Brexit-related amendments to Bills. This brings us on to a piece of statutory (*not* convention-driven) parliamentary timetabling which has relevance for the Autumn Budget. The IfG points out that if a "…budget were in September, the Finance Bill would need to pass its second reading before 31 October". The reason for this is that a second reading of the Finance Bill must be passed within 30 days of the Budget statement.

A Budget in the week beginning October 7, a rumour reported in the Sunday Times, would suit the government, as the 30 day deadline for the Finance Bill's second reading would arrive **after** the default Brexit date of 31 October.

HELP TO BUY ISAs – QUARTERLY STATISTICS

The Help to Buy ISA scheme was launched on 1 December 2015 with accounts available through banks, building societies and credit unions. The scheme enables people saving for their first home to receive a 25% boost to their savings from the Government when they buy a property for £250,000 or less (with a higher price limit of £450,000 in London). This means that for every £200 saved, first-time buyers can receive a Government bonus of £50. The maximum Government bonus is £3,000.

Latest Government statistics show that:

- Since the launch of the Help to Buy ISA scheme, 234,074 property completions have been supported by the scheme.

- 310,658 bonuses have been paid through the scheme with an average bonus value of £920.

- The highest number of property completions with the support of the scheme is in the North West and Yorkshire and The Humber, with the lowest number in the North East and Northern Ireland.

- The mean value of a property purchased through the scheme is £173,470 compared to an average first-time buyer house price of £190,999 and a national average house price of £226,798.

- The median age of a first-time buyer in the scheme is 28 compared to a national first-time buyer median age of 30.

The Help to Buy ISA is available to UK residents over the age of 16 for a temporary period of four years, which started on 1 December 2015 and ends on 30 November 2019. Help to Buy ISA account holders can, however, continue saving into their account until 30 November 2029 when accounts will close to additional contributions. The Help to Buy ISA Government bonus must be claimed by 1 December 2030.

ENTERPRISE INVESTMENT SCHEME APPROVED KNOWLEDGE-INTENSIVE FUND – NEW LEGISLATION

In March last year, the Government published a consultation, ‘Financing growth in innovative firms: Enterprise Investment Scheme knowledge-intensive fund’, which asked for views on improving the supply of capital for knowledge-intensive companies. The consultation responses suggested that the new rules for the approved fund should provide more flexibility for investors to claim tax relief.

The Government has now published the EIS approved guidelines of proposed policy and practice for approving funds, along with draft legislation in Finance Bill 2019, which includes powers for HMRC to set appropriate conditions and approve funds.

Summary of the proposed changes

The legislative requirements for an EIS-approved fund in section 251 Income Tax Act 2007 will be amended and an ‘approved knowledge-intensive fund’ will be introduced, from 6 April 2020, that will:

- require the funds to focus on investments in knowledge-intensive companies;

- give approved funds a longer period over which to invest fund capital (requiring 50% investment within one year of the fund closing and 90% within two years, compared to the current requirement of 90% within one year);

- allow investors in an approved fund to set their income tax relief against liabilities in the tax year, or against their liability of the previous tax year, before the fund closes.

The fund manager will have to provide HMRC with information relating to their fund and these changes will be subject to State aid approval.

FIRST-TIME BUYER STUDY PUBLISHED BY SANTANDER

According to Santander’s First-Time Buyer Study: The Future of the Homeownership Dream – based on a national survey of 5,002 non-homeowners aged 18-40 years –while nine in ten still want to get on the property ladder, the reality is that by 2026 just one in four under 34s will achieve that goal.

The report says that over half (51%) of those surveyed said that owning their own home was one of their top life goals. However, over two thirds (70%) of potential first-time buyers believe that the dream of homeownership is already over for many young people, with 64% expecting homeownership to fall for future generations.

The research found that the sharpest fall in first-time buyer homeownership was among those on middle-incomes (taken as being between £20,000-£30,000 in 2019) – with homeownership rates falling from 65% in 1996 to 27% two decades later. Of the new buyers entering the market today, 64% have household incomes of more than £40,000 and just 16% are individual buyers.

The biggest barrier cited by first-time buyers to getting on the ladder was raising a deposit (30%), followed by getting a mortgage based on their income (15%).

According to the report, the challenges faced by today's first-time buyers include house price inflation outstripping wage inflation, as well as the levels of student debt and the costs of childcare. The average age of a first-time buyer has increased from 25 to 33 years old in the last two decades, and 40% have already started a family, and Santander found that the most sought-after first-time buyer property is now a three-bedroom house.

Santander's research also found that 40% of potential first-time buyers were relying on an inheritance to boost their deposit and that aspiring homeowners are underestimating the size of the deposit they need to save. With the majority of mortgage borrowing limited to 4.5x gross salary, the deposit amount buyers in each region said they were looking to save would, say Santander, price individuals, or households relying on a single middle-income, out of every region in the UK.

Despite their ambitions, Santander's survey found that two fifths (42%) of potential first-time buyers have saved nothing at all towards their first home. Typically, men have saved twice as much as women (£11,660 compared to £5,620), while one in three men and nearly half of women (48%) have not saved anything.

Santander's research found that nearly three quarters (73%) of the people surveyed believe that the Government should do more to help first-time buyers. Over a third (37%) want to see 'Help to Buy' extended beyond 2023, 35% want a cap on rent prices, and a third (33%) would like to see the stamp duty cuts, introduced by the Government in November 2017 for first-time buyers, extended to the first £500,000 of a property's value.

Potential new policy ideas suggested in the report include:

- Introducing a new lending model backed by the Government to help those without family support to raise a deposit;

- Introducing more flexibility in lending affordability criteria, for example less restrictive 'stress rates' for fixed-term mortgages; and

- Making better use of existing housing supply and encouraging greater circulation of homes by introducing a stamp duty incentive for downsizing.

Santander adds the following warning to the press release promoting its report "*The information contained in our press releases is intended solely for journalists and should not be used by consumers to make financial decisions.*"

VULNERABLE TAXPAYERS

The House of Commons Treasury sub-committee has made recommendations on HMRC's approach to dispute resolution – including calling for HMRC to urgently review and improve the guidance it makes available to vulnerable taxpayers.

The conclusions and recommendations made by the Treasury sub-committee include:

"Given the stress and anxiety that disputes with HMRC can cause a vulnerable taxpayer, we welcome the steps taken by HMRC to improve its approach to vulnerable taxpayers and look forward to receiving an update on progress. However, it is clear that more can be done. We recommend that HMRC provides a clearer explanation of its definition of 'vulnerable' when it comes to identifying this sub-set of customers."

"We recommend that HMRC reports on how it has reflected on the insights of groups such as the Low Incomes Tax Reform Group, the tax charities and other advice bodies to gain a full insight into the difficulties faced by taxpayers who cannot afford to pay for advice. This should be provided to the Committee in the response to this Report."

"We have heard that it is too difficult for anyone involved in a dispute with HMRC and with little knowledge of the workings of the tax system to find adequate information from HMRC to help them understand the law and find out about their rights and the help that is available to them. We recommend that HMRC urgently reviews and improves the accessibility, quality and level of detail of guidance it makes available to vulnerable taxpayers. In its response to this Report it should set out a clear timetable to achieve this."

The committee's recommendations follow on from written and oral evidence given to it by the Low Incomes Tax Reform Group, the Chartered Institute of Taxation and others. Also, earlier this month, the Financial Secretary to the Treasury, Jesse Norman, set out a number of steps that HMRC is taking to improve things for unrepresented taxpayers, saying that the Government will provide a further update later this year.

COMPARING CONSERVATIVE AND LABOUR TAX STRATEGIES

What follows is a comparison of the main aspects of, and differences in, Conservative and Labour tax strategy.

Parliament may be "enjoying" its Summer recess, but parliamentary stories continue to abound. The common factor to all of them though remains, unsurprisingly, Brexit.

Financial planners are being asked by clients with, we would imagine, increasing frequency, about what, if anything, to build into their financial plans to anticipate the tax plans and potential tax regimes of the two main political parties.

Well, to give any advice on this, self-evidently, you have to start with as clear an idea as possible about what the respective tax plans of the two main parties are.

Based on what we know (and bearing in mind that there are no official "2019 manifestos" to refer to) you will not be surprised that a "compare and contrast" exercise delivers a very stark comparison. Essentially, "low tax and stimulation" on the right-hand side and "high tax and redistribution" on the left.

So, to the detail - it's fair to say that we have a little more to draw on in relation to what tax might look like under a Corbyn/McDonnell led Government than under the current Johnson/Javid team. A possible Budget in early October (the week commencing the 7th according to Dominic Cummings) would help provide some clarity of course.

But we are not in October. So, what do we know now?

The Conservatives:

Most of what we know about the intentions of the new PM and Chancellor were gleaned during the leadership campaign. It may be that the new PM might steal some of the ideas put forward by the other contenders, for example: Jeremy Hunt's proposal to drop corporation tax to 12.5%; or Rory Stewart's more radical (Mirrlees-founded) ideas for the simplification and modernisation of the UK tax system. And, of course, imitation is the most sincere form of flattery. So, don't expect the PM to be building any Theresa May impressions into his speeches.

Income tax:

Higher rate threshold up to £80,000 from £50,000.

The current income tax bands provide that:

- the basic rate of 20% is paid on taxable income between £12,500 and £50,000 (if the personal allowance is fully available);

- the higher rate of 40% is charged on taxable income between £50,000 and £150,000 (with an effective tax rate of 60% between £100,000 and £125,000 if the personal allowance is withdrawn); and

- the 45% additional rate on taxable income above that.

So, as a consequence of pushing up the higher rate threshold to £80,000, taxpayers earning between £50,000 and £80,000 could become basic rate taxpayers with the benefit of the personal allowance.

It is unclear whether the £1 for £2 personal allowance withdrawal once you reach £100,000 of income would be retained.

Let's remember, though, these were just based on campaign ideas and so, even if the principle is adhered to and implemented, the detail would need to be worked out.

National Insurance (NI):

- The NI upper earnings limit (UEL) is aligned to the higher rate income tax threshold so if that went up to £80,000 there would be an increase in NI payments for some.

- The PM indicated he would like to consider an increase in the threshold above which NI becomes payable from its current £8,632.

Corporation tax:

General comments about the benefit of lowering the rate, but no specific figures given. It would seem self-evident that a low corporation tax rate would contribute to the attraction of a country in which a business could be based.

Capital allowances:

Consideration has been given to increasing the annual investment allowance available on expenditure on plant and machinery from its current level of £1m. Jeremy Hunt proposed £5m. The aim, like reduced corporation tax, would be to stimulate and attract businesses.

Stamp duty land tax (SDLT):

SDLT is stated to be absurdly high for residential properties and the Reforming Stamp Duty paper published by Onward on 22 July proposes the abolition of charges for residential properties worth less than £500,000.

Other taxes:

We have nothing specific on capital gains tax (CGT). On inheritance tax (IHT), if we retain a Conservative Government one would expect the second set of proposals made by the Office of Tax Simplification to be seriously considered. It will be recalled that, among other things, a simplification and streamlining of the annual exemptions, alignment of the CGT and IHT definitions of trading, simplification of the rules on who bears the IHT, a reduced cumulation period of five years abolition of the fourteen year rule in relation to gifts, abolition of taper relief and all term policy death benefits being IHT free without the need for a trust, to name but a few!

One would certainly not expect a Conservative Government to be anywhere near introducing a wealth tax or any form of capital or exchange controls – inside the EU or outside.

Labour:

The key "underpin" is perhaps John McDonnell's statement in an interview given to the Observer that his objective in relation to economic and tax policies is to deliver an "irreversible shift in wealth and power in favour of working people". So, tax policy will have a strongly redistributing driver.

Income tax:

- The 2017 manifesto proposed an increase in income tax rates that would see a 45% rate on taxable income over £80,000 and a 50% rate for taxable income over £123,000. There would be no increases for those earning less than £80,000 pa.

- An excessive pay levy (paid by the employer) of 2.5% was proposed for staff earning over £300,000 and 5% for those earning over £500,000 – with the aim of reducing pay inequality.

Corporation tax:

An increase in the rate to 26% and the reintroduction of the small companies' rate of 21%.

Tax avoidance:

- Expanding the General Anti-Abuse Rule to make it cover avoidance – and with higher, more wide-ranging conditions.

- There is also a proposal to introduce greater transparency with large company tax returns and related documentation being available for scrutiny.

Financial sector tax proposals:

Basically, to introduce a FTT (financial transactions tax) to radically enlarge the scope of UK stamp duty.

Land tax:

The Land for the Many report commissioned by Labour proposes a radical increase to the tax on property to replace council tax and linked to real values.

Inheritance tax:

An abolition may be on the cards, with its replacement by a lifetime gifts tax, essentially changing the tax from being a donor-based tax to being a donee-based tax with gifts (over a £125,000 per donee nil rate) being taxed at income tax rates.

The Land for the Many report suggests this, as does an Institute for Public Policy Research (IPPR) report. This would make the tax, in principle, not unlike the Irish capital acquisitions tax.

Wealth tax and capital controls:

It's arguable that, altogether, tax on property represents a form of wealth tax on a particular asset type.

The shadow Chancellor has said clearly (in January this year) that he had no intention to introduce capital controls.

COMMENT

*Now, all of the above, while being more than pure conjecture, is merely a summary of what **could** come to pass based on an accumulation of statements, past manifestos and various reports.*

So, what to do now? It's a highly subjective challenge, but at the very least reconsider any unused reliefs, allowances, exemptions and legitimate planning opportunities that are available to you currently.

INCOME WITHDRAWAL RATE FOR AUGUST 2019

The appropriate gilt yield, used to determine the 'relevant annuity rate' from HMRC's tables for an adult member commencing income withdrawals (or reaching an income withdrawal review date), in August 2019 is 1.0%.