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EXCEPTIONAL TIMES

MARCH 2022

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Welcome to The Exceptional Times March 2022

We are already speeding through 2022 and it's hard to believe that it has been two years since the pandemic changed the world forever. However, despite this, we are sensing optimism all around us from the businesses and individuals we deal with and, as we approach spring, there is certainly much to celebrate as the days get longer and the first signs of summer appear.

Here at Perrys, we are excited to announce the merger with long-established accountancy practice Gilbert Allen & Co in Tonbridge and the expansion of our office locations in Kent. Alongside this, we have moved to a new office in London, allowing our existing teams in City and Mayfair to combine their expertise under one roof. Through this investment in our practice, we hope to provide an enhanced service to all our clients that offers unrivalled expertise and tax advice across a multitude of sectors and disciplines.

Part and parcel of that is bringing you useful and informative articles in the form of our Exceptional Times, which highlights some of the latest tax changes and other important accountancy matters we feel you should be aware of. In this edition, we cover a range of topics, including IR35 and probate, as well as detailed information about The UK Property Reporting Service.

As always, if you have any questions, queries or need advice about any of the topics mentioned, please feel free to contact your local Perrys branch where our friendly team will be happy to help.

Stewart Pope
CEO Perrys

HELP RAISE FUNDS FOR A WORTHY CAUSE AT OUR ANNUAL CHARITY GOLF DAY!

There's not long now until our 2022 Annual Charity Golf Day, which takes place on Friday 10 June at Dale Hill Hotel & Golf Course in East Sussex. If you haven't yet bought tickets, and would like to join us, there is still time to get involved.

Golfers of all abilities are welcome to take part and the competition will be open to individuals, pairs or four ball teams. Tickets cost £100 per person and include full English breakfast, an 18-hole round of golf, entry into the hole-in-one competition and a three-course dinner.

For more information, or to register, please email **Caroline Hoare** on **hoare@perry-company.co.uk**, or **Nicole Bacon** on **bacon@perry-company.co.uk.** Alternatively, please call **01892 543900.**

Buy-to-let investment - is it worth it?

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There's no denying that recent tax changes have made the buy-to-let market less attractive for investors. Yet it's still a tempting option with the potential for excellent financial returns.

Donna McCreadie, partner and property specialist at our Wrotham office, looks at the current landscape and explains why buy-to-let is still a viable investment.

The demise of the buy-to-let market has been much predicted over recent years. Major tax changes, a 3 percent stamp duty surcharge, and increasing regulation have undoubtedly deterred some from entering the market.

Existing landlords have questioned the viability of their portfolio, and some have made the decision to sell up while house prices are on the increase. Indeed, a recent survey by Nottingham Building Society found that a fifth (20%) of landlords are considering selling all, or part, of their portfolios.

Yet this means that 80% are still keen to retain their assets, suggesting that predictions of a mass exodus of landlords is highly unlikely to happen any time soon. So what are the continuing benefits of investing in buy-to-let property?

Competitive mortgage deals

After a Covid-induced lull, summer 2021 saw a surge of competitive buy-to-let mortgage deals, with many lenders increasing maximum loan to value (LTV) amounts from 75% to 80%. This means that potential investors do not have to raise quite such a hefty deposit to secure a mortgage. For example, on a purchase price of £300,000, the deposit at 75% LTV would be £75,000, while at 80% LTV it would be a more attractive £60,000.

Despite further increases in the Bank of England base rate predicted in the coming months, interest rates on mortgages currently remain historically low. In the buy-to-let arena, lenders have started to reduce interest rates and offer fee-free options.

Rise in rental demand

Buying an investment property is the first step, but how can you be sure of finding a tenant? The good news is that rental demand has picked up significantly since the last UK lockdown ended in spring 2021.

The estate agency trade body Propertymark reported a record number of new prospective tenants registering for homes in May. In June 2021, there was an average number of five viewings before a property was let, indicating strong demand and confirming that landlords are generally able to choose the most suitable tenant for their property.

According to the English Housing Survey, nearly one in five households in England live in the private rented sector – that equates to over 4.4 million households nationwide. 17% live in the social rented sector and 65% are owner occupiers.

With property prices continuing to rise, home ownership is becoming increasingly unrealistic for many. Some experts predict that the UK will become a nation of predominantly renters by 2045, with 55% per cent of the population living in the rental sector.

Increased regulation – a recipe for happier tenants?

It's fair to say that most landlords will greet news of extra regulation with a groan rather than a cheer. In recent years the number of regulations has increased, with myriad laws and obligations that every landlord must abide by. These include anything from fitting smoke alarms and carbon monoxide detectors to issuing annual gas safety certificates and ensuring that electrical devices are safe to use.

While these measures may eat into a landlord's time and profit, it should never be forgotten that they have been introduced for a good reason. Landlords have a responsibility to ensure tenant safety and rectify any repairs or faults within a reasonable time frame.

In the long term this can only be a benefit: recent data from the English Housing Survey shows that 83% of private renters are very or fairly satisfied with their accommodation. Happy tenants can lead to longer-term lets, thereby minimising the risk of missed rental income while a flat or house is left empty.

Your investment has the power to grow

With interest rates continuing to remain so low, cash kept in savings accounts has little or no return. Historically, property in the UK has proved a sound investment. Despite a property value crash at the start of the 1990s and another slump following the 2008 global financial crisis, house prices have risen astronomically over the long term, with current property prices at an all-time high.

In 1980 the average property cost was around £20,000 and today it is just over £250,000.

This means there are two potential profit channels when you enter the buy-to-let market: rental yield and the chance to make a good return if property prices go up and the decision is made to sell.

Discuss the pros and cons with an expert

It's clear there are still many reasons why property investment remains a sensible financial move. There's much to consider, however, including the tax implications, upfront stamp duty costs and letting agent fees if you decide to outsource management of the property.

Speaking to an accountant with expertise in the buy-to-let market is always advisable before committing to a purchase. As a potential landlord, it's important to carefully consider your current income position, future financial goals, and your obligations towards your tenants.

For anyone just starting out, it can seem a daunting landscape. But with the right advice and realistic expectations, the rewards could easily outweigh the challenges.

If you would like to discuss any of the information in this article or need advice about your buy-to-let, please get in touch with Donna McCreadie at the Wrotham office on 01732 882488 or email mccread@perry-company.co.uk.

Are you inside IR35?

The latest guide for freelance contractors

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New tax rules for freelance contractors and their clients came into force in April 2021. IR35, or 'off-payroll working rules', have caused confusion for contractors and the businesses that hire them. Sole traders are not affected, but any worker providing services through an intermediary such as their own limited company – also called a Personal Service Company (PSC) - will have been following the changes closely.

As with any major shift in tax legislation, it can take a while for the implications of the new regulations to become clear. And as HM Revenue & Customs (HMRC) continues to update its guidance, many questions still remain, for example around the issue of employer National Insurance contributions and who will ultimately pick up the tab for this additional tax burden when a contractor is deemed to be 'inside IR35'.

Here, Michelle Downs, manager at our West Malling office, explains the basics behind the IR35 regulations, who it affects, and how to manage the transition to an 'inside IR35' status.

What does IR35 stand for?

It may sound like a top secret codename, but there's a simple explanation behind the term. Back in the days when HMRC was called the Inland Revenue, a press release addressing the issue of tax avoidance by PSCs was issued. This was the 35th Inland Revenue press release of the 1999 budget, hence IR35.

What is the thinking behind IR35?

When individual contractors provide their services via a limited company, or PSC, there is a potential tax benefit both to themselves and to their client. Typically, the contractor can save on Income tax and NI contributions by receiving income in the form of a modest salary, topped up with dividends. Most of their tax is paid as Corporation Tax, which currently stands at 19%.

For employers, there is no obligation to provide a contractor with a workplace pension, nor to pay Class 1 employer NI contributions at the current rate of 13.8%.

If certain conditions are met and the contractor is 'outside IR35', it's perfectly fine to work in this way. However, if the contractor is essentially an employee of their client – just being paid in a different way – the Treasury is clearly losing out on a valuable stream of tax revenue. IR35 exists to ensure that these 'disguised employees' are taxed at source via the usual PAYE system, and that employers pay the relevant NI contributions for their workforce.

Who is affected by IR35 regulations?

Any contractor who provides services to a third party, whether working for the public or private sector, should be assessed for IR35 purposes. Previously, it was down to the contractor themselves to decide whether they were a 'disguised employee' and should therefore be taxed in the same way as any other staff member. However, from 2017, public sector authorities became responsible for making that decision, and since April 2021, medium-sized and large clients in the private sector (including charities) must decide on their contractors' IR35 status.

Where a contractor is working for a smaller business, it remains the contractor's responsibility to decide on their own employment status. To qualify as a 'smaller business' for IR35 purposes, companies must meet two or more of the following conditions:

- An annual turnover of less than £10.2 million
- A balance sheet total of less than £5.1 million
- Fewer than 50 employees

Inside or outside IR35 – how is the decision made?

There are various tests that must be applied to determine a contractor's status. Confusingly, the guidance on this is far from crystal clear, with new case law precedents being set as decisions are challenged at HMRC tribunals.

Where it's up to the client to assess status, they must outline their decision, and reasons behind it, in a Status Determination Statement (SDS) sent directly to the contractor. The contractor has the right to challenge the SDS.

HMRC provides an online status checker tool, CEST, however its conclusions are not always definitive, and it is highly advisable to seek expert advice from an IR35 tax specialist to discuss the CEST results.

Broadly, a contractor may be deemed to be inside IR35, i.e. an employee in all but name, if the following conditions apply:

- You are required to provide your personal service – you and no-one else will do the work i.e. you cannot send a substitute to work on your behalf.
- You are controlled in the manner in which you do the work, i.e. you must be at a certain place at a certain time, rather than work according to your own schedule.
- Mutuality of Obligations exists, i.e. there is an expectation that work will be offered by the client, and you are obliged to accept it.

Sounds simple? In reality, this is a nuanced area of tax law that continues to evolve.

What to do if your contract has been classed as inside IR35

Many contractors may simply decide to do nothing, and accept that their pay cheque will now land in their company bank account minus the usual PAYE deductions. It's vital to remember, though, that they will be treated as an employee for tax purposes only – they will not receive other employee benefits such as holiday or sick pay.

Crucially, employers are NOT able to pass on to the contractor the additional costs that they incur, namely Class 1 employer NI contributions. But while this is clearly legislated against, there has been much concern amongst contractors about the issue of 'indirect recovery', whereby employer NICs are clawed back by paying lower contract fees. Umbrella companies and agencies are under scrutiny for passing on these costs to the contractor, with a group action currently underway.

The message is: check your contracts and your remittance advice very carefully, and always discuss any concerns with a tax expert. Remember that IR35 should be considered on a contract-by-contract basis: some contracts may fall within the scope, some may not, depending on the nature of the working relationship.

If you disagree with the SDS you've been given by your client or agency, seek advice at the earliest opportunity. IPSE is a not-for-profit organisation for the self-employed, and its website has a dedicated IR35 section. For a detailed insight on the status of your company's freelance contracts, speak to an accountant with IR35 expertise.

If you would like to discuss any of the information in this article or need advice about IR35, please get in touch with Michelle Downs at the West Malling office on 01732 870032 or email downs@perry-company.co.uk.

Enterprise Investment Schemes

FOUR Tax reasons why they are great

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Since 1994, Enterprise Investment Schemes (EIS) have been an important tool in the investors' kit, but many potential investors worry that EIS-eligible businesses are too high risk. Here, Craig Harman, a tax specialist at Perrys Chartered Accountants, explains everything you need to know about Enterprise Investment Schemes, and the tax savings you might be missing out on if you're not getting involved.

A government-backed initiative, the Enterprise Investment Scheme was designed to encourage individual investors to buy shares in higher-risk companies by offering generous tax reliefs to those who invest. To be eligible for funding under the EIS, a business must be within seven years of its first commercial sale, not have gross assets worth more than £15 million before shares, and have less than 250 full-time employees. It's true that investing in less established businesses may carry a greater investment risk. However, there is the potential for higher returns and the tax relief available can minimise any loss should the worst happen.

1 Income tax relief

Of all the benefits of investing in an EIS, one of the most attractive is the income tax relief you can receive. You can claim relief for a maximum annual investment of £1 million, or £2 million if you have invested in a knowledge-intensive company. You can claim for up to 30% of your investment, meaning that you could receive up to £300,000 tax relief a year - or £600,000 for investments in knowledge-intensive companies. This is one of the most generous tax relief schemes currently on offer in the UK.

2 Loss relief

Of course, returns are not guaranteed when investing in early-stage companies, and indeed most investments carry an element of risk. However, the EIS provides attractive loss relief at your marginal tax rate. When you combine this loss relief with the income tax relief you receive when investing in an EIS eligible company, you greatly reduce the amount of capital you have at risk.

3 They support small/ medium businesses

Since its launch in 1994, the EIS has been pivotal in helping small to medium, new starter companies in the UK achieve vital growth capital. Over the last two decades, the scheme has helped EIS businesses access billions of pounds which might otherwise have been ploughed into lower risk companies. The EIS stipulates that those receiving investment under the scheme must use it to grow their business - increasing revenue, customer base and number of employees. This means that you can be sure that your investment is helping small businesses to thrive, while providing valuable jobs and services to local communities.

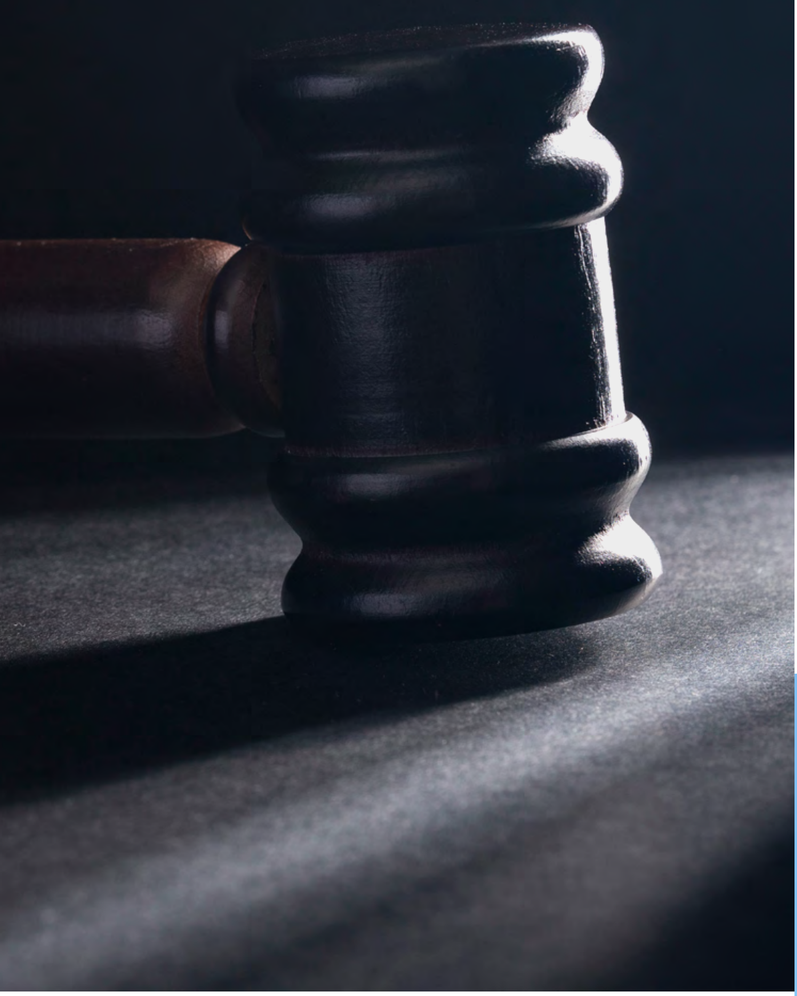
4 Profits are tax free

Another initiative of the EIS are the Capital Gains Tax advantages. For most non EIS investments, any returns will be liable for Capital Gains Tax (CGT) above the CGT-free personal allowance. When you invest in an EIS, provided you meet the conditions, all growth in value is exempt from CGT, meaning you can achieve a greater net profit, while saving your personal allowance for other investments.

The use of the scheme is subject to detailed conditions. Therefore, it is important these are met otherwise your investment may not qualify. If you have any doubts, it is best to seek advice from a specialist EIS accountant.

If you would like to discuss any of the information in this article or need advice about the Enterprise Investment Scheme, please get in touch with Craig Harman at the Tunbridge Wells office on 01892 543900 or email harman@perry-company.co.uk.

Everything you need to know about probate



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When a loved one dies, managing their legal affairs and settling the finer details of their estate can be overwhelming and time consuming. Here, Craig Harman, a probate specialist at Perrys Chartered Accountants, explains everything you need to know about probate.

What is probate?

Probate is the legal right to deal with someone's property, money and possessions, i.e. their estate, when they die. If a loved one dies, then you may need to apply for a grant of representation to administer the estate. If the person left a Will appointing executors, a 'grant of probate' will be issued. In the event there are no executors able to act under the Will or there is no Will in place, 'letters of administration' will be issued.

Is probate always needed?

In some circumstances, you may not need probate. For example, jointly owned land, property, shares or money may pass to the surviving owner automatically under the rules of survivorship. In addition, it is normally possible to release small bank balances without the need for a grant of probate.

Who can apply for probate?

If the deceased left a valid Will, the named executors would have the right to apply for probate.

If there is no Will, then the 'administrator' will deal with the estate. This is determined by the rules of intestacy but effectively this is the deceased's closest living relatives in a set priority order, starting with the husband, wife or civil partner. Crucially unmarried partners are not included under the rules of intestacy.

A professional, such as a specialist probate accountant, will be able to help you with organising the application and any other tasks associated with administering the probate process.

If you are an executor but would prefer for a professional to act on your behalf, then you can appoint a probate specialist to assist you with the process.

What happens after I have applied for probate?

You will usually receive a grant of probate or letters of administration within eight weeks of sending the original documents. You should not make any financial plans or arrange the sale of any property until the grant of probate or letters of administration are received.

What is involved with the probate process?

There is a wide range of responsibilities in the probate process. Tasks that will need to be undertaken include:

- Registering the death and notifying relevant organisations
- Locating the Will and ensuring it is valid
- Coordinating funeral arrangements
- Identifying and tracking down any beneficiaries or potential beneficiaries according to the Will or rules of intestacy
- Obtaining details of the deceased's assets and liabilities
- Completing and submitting an Inheritance Tax Return. This includes identifying any gifts made by the deceased in the seven years prior to death (or 14 years in some situations)
- Settling any liability due for Inheritance Tax
- Finalisation of the deceased's personal tax affairs, including the submission of any outstanding Self-Assessment Tax Returns
- Dealing with potential disputes
- Calculating any Income Tax and Capital Gains Tax liabilities for the period of administration
- Preparing estate accounts and providing copies to beneficiaries
- Making distributions to beneficiaries

Why use a probate specialist?

Administering probate can be a difficult and lengthy process - this is especially the case when a person dies without a valid Will in place.

During such difficult circumstances, probate can seem overwhelming for many people. Therefore, seeking a professional to assist with the probate process will help to ensure information is processed as quickly and painlessly as possible allowing you to grieve your loved one in peace.

If you would like to discuss any of the information in this article or need advice about probate, please get in touch with Craig Harman at the Tunbridge Wells office on 01892 543900 or email harman@perry-company.co.uk.

HMRC publishes new guidance for property reporting

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The UK Property Reporting Service was launched on 5 April 2020 as a new system that individuals must use to report and pay Capital Gains Tax (CGT) on the disposal of UK residential property.

Until now, the only guidance available has been that on the GOV.UK pages, but now HM Revenue & Customs (HMRC) has published more detailed guidance as an appendix to its CGT manual.

Included within the new guidance is an overview of who needs to use the service, detailed instructions on how to file online, and some detail on the interaction between the UK Property Reporting Service and Self-Assessment Tax Returns.

What is the UK Property Report Service for CGT?

In addition to reporting property disposals on a Self-Assessment Tax Return, taxpayers must also now set up a UK property account to report disposals and pay any tax due, within a much tighter timeframe.

The deadline for both reporting and payment of any CGT due was originally 30 days from completion, but as announced in the Autumn Budget, this has now been extended to 60 days for property completions on or after 27 October 2021.

When is there a requirement to submit a report?

A report and tax payment is required whenever a capital gain is made on the disposal or transfer of residential property or land, and so will affect Landlords, second home owners, divorcing couples, and parents gifting assets to children.

Are any disposals excluded from reporting?

Some disposals are excluded from reporting, where no tax liability arises as a result of the sale or transfer, and there is no requirement to submit a return in the following circumstances:

- The disposal was before 6 April 2020
- The entire gain is covered by Private Residence Relief
- The transfer was made to a spouse/civil partner
- The gains (including any other chargeable residential property gains in same tax year) are within the capital gains annual exemption
- The property was sold at a loss
- The property is outside the UK

How do I submit a report?

A Government Gateway user ID will be needed to set up a UK Property account to file the report. Interest and penalties may be charged if you do not report and pay any CGT due on time.

Capital gains will also need to be reported on your Self-Assessment Tax Return in the following tax year, as normal, together with a note of any CGT already paid.

How do the online reports interact with self-assessment?

At present there is little interaction with self-assessment, as the UK Property Reporting Service is an entirely standalone service. This can lead to problems when an individual has paid too much CGT with the online report and then wishes to offset this against their remaining self-assessment liability.

Where possible, an amendment can be made to the online return, in order to reclaim the overpayment of CGT, before completing the Self-Assessment Tax Return. However, if this is not possible, you can contact HMRC to request a repayment or transfer of the overpaid amount to your self-assessment account. It is hoped that there will be changes made to facilitate interaction between the UK Reporting Service and self-assessment going forwards.

What information will I need to calculate the gain and tax due?

Given the tighter reporting deadline for capital gains, it is now more important to ensure that you have all information to hand to enable you to calculate your gain on disposal:

- Details of how much you bought and sold the asset for
- The dates when you took ownership, and disposed, of the asset
- For former main residences, the dates during which you occupied the property
- Any other relevant details, such as costs of improvements to the property, the costs of disposing of the asset and any tax reliefs you're entitled to
- Calculations for each capital gain you need to report

For help with calculating your CGT liability, reporting disposals of UK residential property, and associated advice on CGT planning, please contact your local Perrys branch.

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