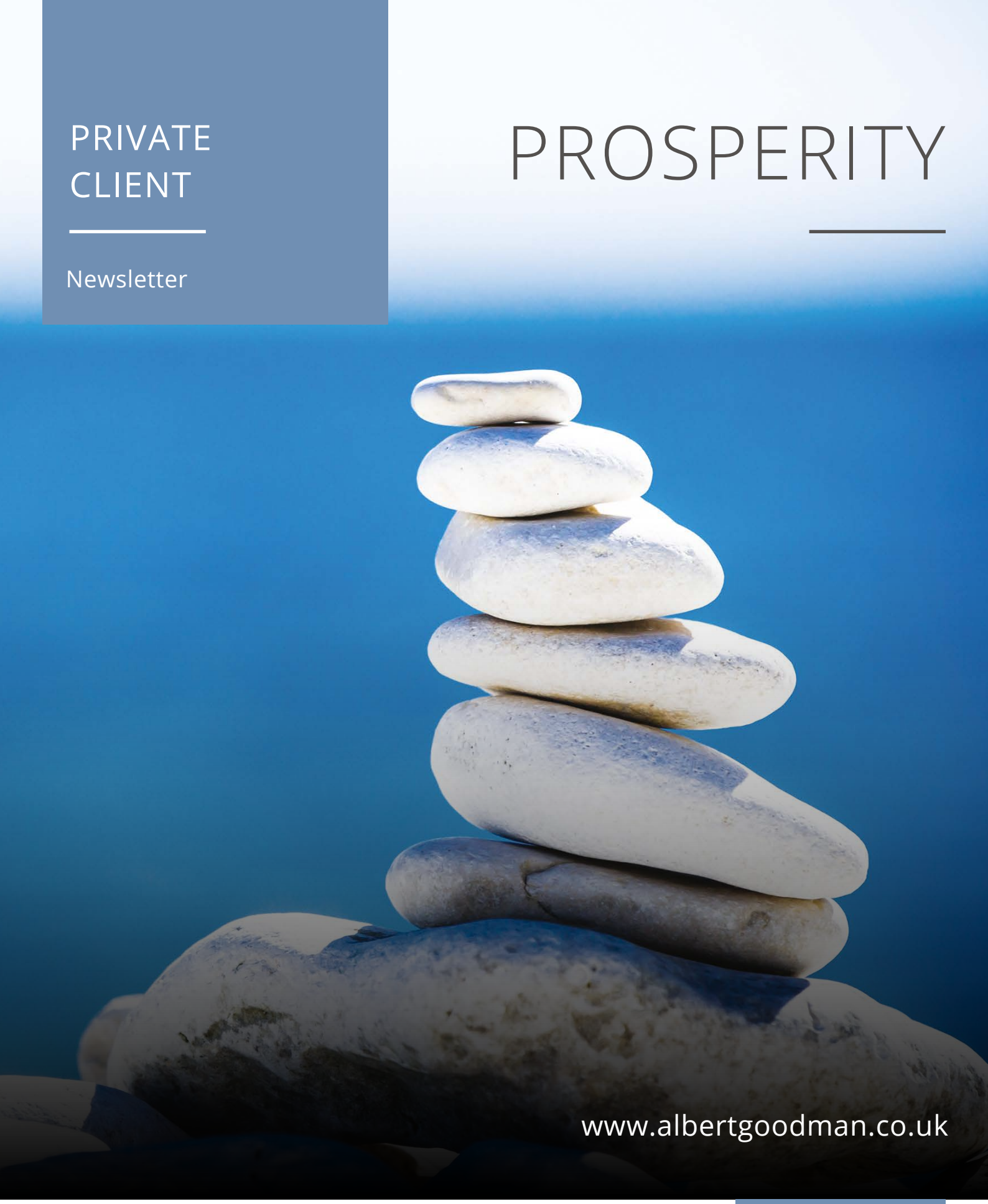
PRIVATE CLIENT

Newsletter

PROSPERITY



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MAY 2020

ALBERT GOODMAN

CHARTERED ACCOUNTANTS, TAX CONSULTANTS & FINANCIAL PLANNERS

welcome

Welcome to the latest edition of the Prosperity newsletter.

For Albert Goodman, April meant the start of a new tax year, bringing with it new financial and tax planning opportunities.

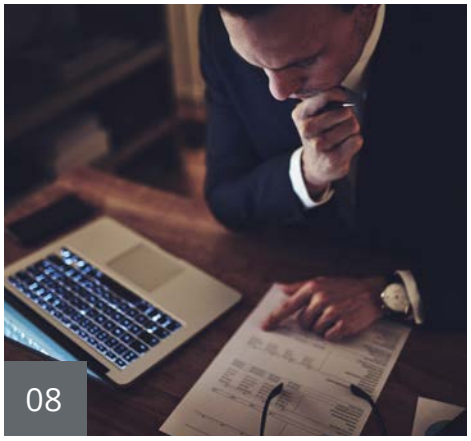
However, April 2020 was like no other and brought more new experiences than we have ever had before. Our teams are working from home and have quickly learnt how to work in a different way. We are all very grateful to have a secure, robust IT system which allows us to work effectively and continue team and client meetings with video conferencing.

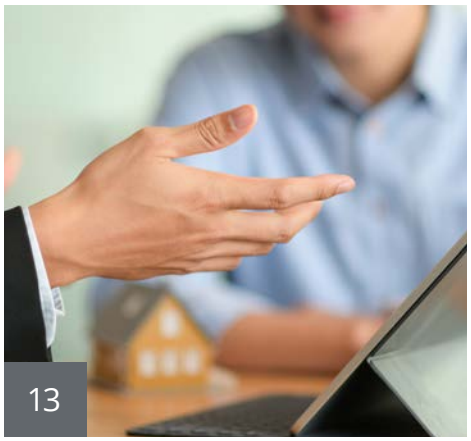
There are numerous new Government schemes to support businesses and we have had to adapt to support our business clients understand and benefit from these new measures.

Going forward we will emerge into a new world, with different ways of travelling safely, socialising and social distancing in public.

The current global emergency is a stark reminder of the importance of forward planning and regularly reviewing financial arrangements to ensure that at times of crisis, our clients can have confidence in their finances and keep focused on their health and well being of their loved ones.

Louise Osborne
Partner





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CONTENTS

UPCOMING TAX DEADLINES

APRIL

30th HMRC should have received corporation tax returns for companies with accounting periods ended 30 April 2019.

MAY

1st Payment of corporation tax liabilities for accounting periods ended 31 July 2019 for small and medium-sized companies not liable to pay by instalments.

£10 daily penalties apply to late online self-assessment tax returns for the year ended 5 April 2019 to a maximum of £900.

New VAT fuel scale charges apply.

3rd Filing date for printed form P46 (car) for quarter ended 5 April 2020.

7th Electronic filing and payment of VAT liability for quarter ended 31 March 2020 (does not consider deferral of VAT payments due to coronavirus (COVID-19).

14th Quarterly corporation tax instalment for large companies (depending on accounting year end). EC sales list for quarter ended 31 March 2020 due (paper form)).

19th Payment of PAYE/NIC/construction industry scheme/student loan payment liabilities for month ended 5 May 2020 if not paying electronically.

File monthly CIS return.

21st File online monthly EC sales list.

Submit supplementary intrastat declarations for April 2020.

22nd PAYE, NIC and student loan liabilities to clear HMRC's bank account.

31st Employees at 5 April 2020 should have received form P60 from their employers.

**Where there are references to the payment of liabilities (other than VAT), it may now be possible for businesses to put in place Time To Pay arrangements with HMRC, due to the Covid-19 crisis. These will be considered by HMRC on a case by case basis.*

ESSENTIAL PROTECTION FOR BUSINESS OWNERS

Many business owners are potentially vulnerable should death or serious illness cause a major change to their business situation. This unpalatable possibility is something that all too often gets overlooked, it's uncomfortable considering your own morbidity or mortality.

The current Covid-19 pandemic, where every day, death rates from the disease are all over the media, causes people to place renewed priority to ensure the appropriate protection is in place to providing for both their business and their families.

Where death or illness occurs, major disruption can follow, causing potential management disputes and financial pressure on the business. If a shareholding director dies, the surviving directors may have to accept someone from the deceased's family, taking a decision-making role in the business. It's easy to see how that could become an intolerable situation. Additionally where the deceased director's earning power was instrumental in the success of the business, surviving the reduction in income and finding the money to recruit a suitable replacement – will take significant capital resources that many businesses won't have available.

Many small, medium sized enterprises might not be able to survive these challenges, making the protection of the business an absolute priority. Solutions are readily available to enable directors to buy out the deceased director's shares and provide funding to replace the lost expertise. Many directors assume that the cost of this protection will be prohibitive - but in many instances, it's available for significantly less outlay than they assume.

At Albert Goodman, we have specialist expertise in this area and offer an initial discussion free of charge and obligation.

Andrew Hopper
Workplace Pensions Consultant

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STOCKS & SHARES ISA

So we have entered a new tax year and you have a new ISA allowance available, possibly not your top priority with the current world events!

Financial discipline still exists and when clients ask if an ISA is worth it the answer is usually YES for a variety of reasons. Just because the equity markets have fallen since the start of the year don't change your investment strategy, by this I mean don't take more risk than you might normally consider.

The ISA allows an investor to put away £20,000 each year and these assets are then free of Income Tax and Capital Gains Tax.

There are many types of ISAs, Cash, Stocks & Shares, Junior, Innovative Finance and Lifetime ISA. The majority of people will use either a Cash ISA or a Stocks & Shares ISA. With a Stocks & Shares ISA, this will mean leaving the money invested for at least 5 years, although that doesn't mean you can't access the money if needed. When selecting an ISA always check the terms for accessing your money, and whether there's a penalty or charge.

A Stocks & Shares ISA should only really cost around 1% - 1½% per annum, and potentially much less if you use a passive investment fund. The investment choice is extensive, from Corporate Bonds to Emerging Markets but I would take a balanced approach to any long term investment, don't try and pick the "next big thing".

The value of investments can fall as well as rise. You may not get back what you invest.

If the uncertainty of the stock markets is not for you, then a Cash ISA allows you to use the ISA allowance. If you have no cash available but have investments outside of an ISA then consider using the Bed & ISA facility to move the asset into an ISA wrapper. Watch for Capital Gains (CGT) on this transaction as it is a sale for CGT and then repurchase within the ISA.

Don't forget Junior ISAs for those under 18, the 2020 Budget significantly increased the allowance from £4,368 to £9,000 per tax year from 6 April 2020. The Child Trust Fund (CTF) has the same subscription limits. A child holding a CTF isn't eligible to open a Junior ISA (JISA) unless they first transfer their CTF funds to a JISA and close the CTF.

Christian Hartnell
Consultant

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TAX YEAR-END PLANNING 2020 PENSION INVESTMENT CHECK LIST

We have now entered British Summer Time and the thoughts of dealing with last minute tax affairs as we approached the end of the last tax year now start to seem a distant memory. However, it is never too early to start thinking about tax planning for the year ahead. This is includes revisiting your pension affairs. This provides us with a number of key opportunities to make the most of the tax reliefs and allowances which are available. What follows are a number of salient points we should all consider.

• When making personal contributions your payments will attract tax relief at your marginal rate of income tax on gross contributions up to 100% of your earnings (or £3,600 if more). Even non-taxpayers receive basic rate tax relief if the contributions are made to a plan operating 'relief at source' such as a personal pension plan.

• Pension contributions are subject to an annual allowance of £40,000. This is the maximum that collectively you and your employer can contribute per tax year without you having to pay tax on any of the contributions.

• Personal tax relievable contributions are restricted to your relevant UK earnings which are earnings from an employment or trade only (dividends, rental income and interest do not count). This could be less than the annual allowance.

• If you have sufficient earnings, or if your employer is making the contribution, you and your employer can use unused annual allowances from up to the previous 3 tax years, provided you had a UK registered pension in those years. This is known as carry forward.

• If you don't have any UK relevant earnings but are less than 75 years old and a UK tax resident then you can still contribute up to a maximum of £3,600 gross per annum receiving tax relief at the basic rate (20%). The good news here is that you can also pay into someone else's pension including your partner even if they don't have earnings or a child or grandchild on the same basis.

What is the position if you are a high earner?

• From April 2016 the Government introduced what is known as the Tapered Annual Allowance. This meant that for tax years 2016/17 to 2019/20 the standard Annual Allowance of £40,000 reduced by £1 for every £2 of your 'adjusted' income over £150,000 (adjusted income is taxable income from all sources plus employer pension contributions). Once adjusted income reached £210,000 or more, the annual allowance was reduced to a minimum of £10,000.

• It should be remembered that the tapering of the annual allowance didn't apply in those tax if total income from all sources less your own pension contributions was £110,000 or less. This is known as the 'threshold income' amount.

• However, following the last Budget, the Chancellor announced that the Tapered Annual Allowance limits were increasing for the 2020/21 year. The Threshold and Adjusted Income limits have moved from £110,000 and £150,000 respectively to £200,000 and £240,000.

• These changes have removed many people from being affected by the tapered annual allowance. For some very high earners the position has worsened as the minimum annual allowance after tapering is now £4,000 (instead of £10,000). This affects those with adjusted income over £300,000. Once adjusted income reaches £312,000 or more, the minimum Annual Allowance of £4,000 applies.

• If you have sufficient annual allowance (including carry forward), you may be able to make a pension contribution to reduce your income to £100,000 which will restore your tax free personal allowance in full (or any contribution that reduces your income to below £125,000 will reinstate some personal allowance).

• If you benefit from bonuses, there may be an opportunity to exchange a bonus for an employer pension contribution. This results in both employer and employee national insurance savings whilst also offering the employee income tax savings and the employer, a corporation tax saving.

For business owners there are opportunities in respect of pension contributions and the treatment of profits.

• For many directors, taking profits as a pension contribution can often be an efficient way of both drawing remuneration and reducing both their and the company's overall tax bill.

• Additionally, there is no employer or employee national insurance payable on pension contributions.

If you are approaching retirement there are opportunities to boost your pension pot.

• It is important to think about making pension contributions before you access your pension benefits. If you are looking to take advantage of the new rules surrounding pension income drawdown flexibility for the first time, you need to avoid triggering the Money Purchase Annual Allowance. Once triggered, this will reduce the opportunity to fund a defined contribution pension tax efficiently to just £4,000 annually with no ability to carry forward.

It is important to ensure that you take financial advice so that any planning undertaken is right for you and that you understand the full implications in respect of your overall tax position, wider financial planning arrangements and state benefits.

Paul Holt
Chartered Financial Planner

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THE COST OF INVESTING: ARE YOU PAYING TOO MUCH?

In the last newsletter, I highlighted the key benefits of Systematic Investing and how this can lead to better investment outcomes. There are many factors that make up a Systematic Investment approach, however, one of the key principles is 'cost control'.

Although most investors know that they are paying something for their investments and pensions, very few are aware of the actual costs that are being applied. This is a key area of discussion as management fees, expenses and transaction costs incurred in the management of a portfolio have a direct impact on returns. Therefore, managing costs is just as important as managing investments because good investment performance can be wiped out by high costs.

There can be number of charges to pay when investing because there are several parties involved in helping manage your money. Typically, an investment portfolio will have three layers of costs:

- Investment Platform Costs* - The investment platform holds your investment portfolio and allows you to access a wide range of fund managers and investment funds.
- Fund Manager Costs* - Typically, a fund will apply an Ongoing Charge Figure (OCF) which covers administration, operating costs, investment management and independent oversight. These fund manager costs can vary hugely and are dependant on the type of investment fund. They typically range from 0.30% - 1.60%.
- Financial Adviser Costs - These are the charges applied by your Financial Adviser to provide ongoing advice in relation to your investment portfolio and wider financial planning needs.

*Please note that some investment and pension providers combine the costs into one figure.

It is important to keep a lid on these costs as much as possible, to ensure that you, as the investor, are getting the maximum amount of net return possible.

Case Study

In order to bring this theory to life, here is a real life case study of a client that came to Albert Goodman Chartered Financial Planners within the last six months.

The clients contacted our office as they had concerns over the advice they were getting from their existing financial adviser and wanted an independent review of their investments and pensions.

Summary

- Mr & Mrs X had a combined wealth of £1.1 million
- This £1.1 million is split between both pension & ISAs

As part of a detailed review of their existing assets, we completed an extensive cost comparison which confirmed that by adopting a Systematic Investment approach, with a focus on controlling costs, we were able to save the clients more than £10,000 per annum in charges:

Existing Provider			Albert Goodman Portfolio		
Mr X Pension		**£779,135**	**Mr X Pension**		**£779,135**
Annual Management Charge	1%	£7,791.35	Platform Charge	0.24%	£1,869.92
Investment Charge	0.53%	£4,129.42	Fund Charge	0.35%	£2,726.97
Adviser Charge	0.50%	£3,895.67	Adviser Charge	0.50%	£3,895.68
Total	**2.03%**	**£15,816.44**	**Total**	**1.09%**	**£8,492.57**
Mrs X Pension		**£204,280**	**Mrs X Pension**		**£204,280**
Annual Management Charge	1%	£2,042.80	Platform Charge	0.24%	£490.27
Investment Charge	0.42%	£857.98	Fund Charge	0.35%	£714.98
Adviser Charge	0.50%	£1,021.40	Adviser Charge	0.50%	£1,021.40
Total	**1.92%**	**£3,922.18**	**Total**	**1.09%**	**£2,226.65**
Mr X ISA		**£99,005**	**Mr X ISA**		**£99,005**
Annual Management Charge	1%	£1,118.76	Platform Charge	0.24%	£237.61
Investment Charge	0.53%	£ -	Fund Charge	0.35%	£346.52
Adviser Charge	0.50%	£495.02	Adviser Charge	0.50%	£495.03
Total	**2.03%**	**£1,613.78**	**Total**	**1.09%**	**£1,079.15**
Mrs X ISA		**£88,891**	**Mrs X ISA**		**£88,891**
Annual Management Charge	1%	£1,004.47	Platform Charge	0.24%	£213.34
Investment Charge	0.53%	£ -	Fund Charge	0.35%	£311.12
Adviser Charge	0.50%	£444.45	Adviser Charge	0.50%	£444.46
Total	**1.63%**	**£1,448.92**	**Total**	**1.09%**	**£968.91**
TOTAL COST	**1.95%**	**£22,801.32**	**TOTAL COST**	**1.09%**	**£12,767.29**
			TOTAL SAVING per annum	**1.09%**	**£10,034.03**

If we assume that both investment portfolios provided a gross return of 5% over a year, the net return for the existing portfolio would reduce down to 3.05%. Although, there is still a reduction in return from the Systematic Investment approach, the loss of return in charges is much lower and leads to a net return of 3.91%.

Summary

Whilst there was a significant cost saving to be had in the case study above, it is also important to consider the wider portfolio position and your investment objectives and needs when analysing any investment portfolio. Our independent financial advisers will analyse every aspect of your existing investment or pension portfolio, and consider the underlying performance and risk before making any recommendations.

If you would like to discuss your existing investment or pension portfolio with one of our advisers, please get in touch and we will be happy to discuss this in more detail.

Calum Butt
Consultant

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TIME IS TICKING FOR RESIDENTIAL PROPERTY DISPOSALS

Since the introduction of self assessment back in 1997, UK resident individuals have been required to report disposals of property on their annual tax return and pay over any Capital Gains Tax (CGT) due by 31 January following the end of the tax year. A new regime will be introduced from April 2020 which will drastically shorten the window for both reporting such disposals, and paying over the CGT.

A new 'UK land return' must be filed with HMRC within 30 days of a property disposal, with the CGT being payable by the same date. The new return is in addition to the existing tax return, and so the disposal must be reported again when the individual completes their normal self assessment tax return at the end of the tax year.

The new rules will apply to disposals of UK residential property by UK resident individuals. Non-UK resident individuals have been required to file similar returns on the disposal of UK residential property under these strict time limits since April 2015, but the new rules will also now extend this to any disposal of UK land or property by a non-UK resident.

In year reporting will bring with it many complications, such as deciding which rate of CGT will apply based on your expected income for the year, dealing with multiple disposals in the same tax year, utilisation of capital losses, and claiming relief which may not be quantifiable until after the event (such as an EIS investment).

If you are intending to sell a residential property, it is essential that you get in touch with us as soon as possible so that we can ensure all the necessary information is available to file the return, and calculate the CGT payable within the 30 day time frame. Now would be a good time to make sure the acquisition history, including any required valuations, and usage of your residential properties is documented to reduce the administrative burden on a future disposal when time is ticking.

If you have any questions about the new regime and what it means for you then please get in touch.

Tara Bell
Senior Manager

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SIPS NOT SIPPS!

In light of recent events, share schemes may well become even more attractive, particularly where employers are impacted significantly by the economic turmoil and are unable to offer competitive remuneration packages. Share Incentive Plans (SIPs) are not a particularly popular HMRC approved employee share scheme within private companies, so I thought I'd turn the spotlight on this unloved share plan.

Unlike the focused Enterprise Management Incentives, SIPs are an all-employee share plan. A restriction can be placed on new starters, but this participation restriction cannot exceed an 18 month timeframe. In addition, the plan shares are held by a discretionary trust; therefore the professional running costs should not be overlooked.

There are four main awards:

Partnership shares - The employees can sacrifice a maximum of £1,800 (or 10% of gross earnings if less) to acquire plan shares.

Matching shares - The employer can award up to two additional shares for every partnership share acquired.

Free shares - each employee can be awarded up to £3,600 of plan shares. This can be varied based upon length of service, contractual working hours, performance and remuneration levels.

Dividend shares - dividends paid on plan shares can be used to acquire further shares.

Whilst this is not the most straight forward employee share plan due to the numerous rules to be complied with, shares subject to a SIP have a powerful benefit in the form of transfers to an ISA tax-free.

Example

On 01.02.2015, Ida acquired 600 partnership shares at £3 a share. Her employer awarded a further 1,200 shares to match this and 700 free shares. No dividends have been reinvested.

Following the fifth anniversary, the share price has increased to £8 a share. Ida, having paid only £1,800 to date (out of untaxed income), now elects to withdraw the shares from the plan and transfers £20,000 of shares (within 90 days) to her ISA without tax consequence.

The shares whilst within the ISA wrapper remain tax-free in respect of dividends and capital gains.

Unless the company is in the midst of a significant growth spurt, it is unlikely that one year's award in isolation would justify the ISA management cost, however you can see how an employee could build up a valuable ISA portfolio over a few years and within a tax-free environment.

Whilst this scheme is not for the faint-hearted, it can be a valuable tool to incentivise your wider employee base. If you'd like to discuss the various employee share schemes available to your business, please do get in touch.

Elaine Grose
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PROPERTY DEVELOPMENT A CASE STUDY

John (a real client but not his real name), has a substantial property which he and his family have occupied as their home for many years, before obtaining planning permission to redevelop the property into four new dwellings.

John transferred two plots to his own company hoping to save lots of tax. He also planned to move into the other houses before selling to make the sale tax exempt. These are not uncommon beliefs but miss some very important points which John needed to consider.

Using a company for a development may be a very good idea for protection from the commercial risks associated with property development. The initial transfer of Plots 1 & 2 into the company was Capital Gains Tax (CGT) free as they were part of his private residence. Stamp Duty Land Tax was a tax cost on the transfer, and when the build is completed the company will pay Corporation Tax on the profit at 19%.

Whilst this represents a significant tax saving compared with 40% or 45% Income Tax, John did not realise that a further tax charge would apply when he wanted to extract the cash from the company. As an alternative, we discussed reinvesting the money within the company until such time as he needed to access the funds, which also helped his plans to pass value onto his children.

For the two plots held personally CGT private residence relief is not available as he was developing property for resale and moving in for a short time is not usually sufficient to create an entitlement to the relief. In John's case the profit would in any case be subject to Income Tax and not CGT.

His other concern was in relation to the VAT. In the end John decided that he would build Plot 3 for his permanent home and claim VAT under the DIY scheme which has very strict limitations, applying only to a house you intend to be for your own occupation. The correct paperwork must be filed quickly after the build is completed. The development of Plot 4 was subcontracted to his development company under a VAT zero rated design and build contract, and would be sold as soon as completed.

Before we finished our conversation I checked that John was aware of the Construction Industry Scheme which requires tax deduction from payments to subcontractors. In this respect John was well informed and was following the CIS procedures.

The moral of the story is that tax is a complex subject, especially in relation to property transactions, and advice at an early stage in the process allows you to make informed decisions.

INVESTORS' RELIEF

Investors' Relief was introduced in the 2016 Budget and provides further tax relief for external investors also known as 'angel investors'. Generally speaking, the relief is not available to directors or employees, however there are exceptions as unremunerated directors and investors who became employees more than 180 days after the shares were issued do qualify for the relief.

Similarly to Entrepreneurs' Relief, qualifying investors pay Capital Gains Tax (CGT) at the lowest rate of 10% and this applies to a lifetime limit of £10 million of gains. This £10 million lifetime limit is separate to the entrepreneurs' £1 million limit (which was reduced in the recent Budget) meaning that both limits could be available to investors. This may be useful if an individual has used up their entrepreneurs' lifetime limit.

Unlike Entrepreneur's Relief where you must hold at least 5% of the total shares in issue, there is no minimum qualifying shareholding to be eligible for investors' relief.

QUALIFYING COMPANIES

The company must be an unlisted trading or holding company of a trading group throughout the investor's ownership of the shares. Unlike other reliefs such as the Enterprise Investment Scheme (EIS) or the Seed Enterprise Investment Scheme (SEIS), there are no restrictions on the type of trade.

The relief may therefore open opportunities for individuals to invest in unlisted companies where the trade is excluded from EIS/SEIS, for example property development. It may also mean that relief can still be given for shares that have since been disqualified from obtaining EIS/SEIS relief.

QUALIFYING SHARES

The shares must be new ordinary, subscribed for (paid in cash) on or after 17 March 2016 and held for at least three years from 6 April 2016. This means that the first disposals that will qualify for investors' relief will be during the 2019/20 tax year.

The shares must not be listed on a recognised stock exchange and this does not include the alternative investment market (AIM) as this is recognised as unlisted. The relief must be claimed by the first anniversary of 31 January following the end of the tax year in which the disposal occurs, so by 31 January 2022 for a 2019/20 disposal.

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