



DAVID PATTINSON CHARTERED ACCOUNTANTS

December 2021



QUARTERLY NEWSLETTER

Xmas and New Year Holidays

My office will close at midday on Thursday, 23 December and re-open at 9:00 a.m. on Tuesday, 4 January. At this time last year I expressed the hope that 2021 would be a better year than 2020, but it turned out to be only a marginal improvement. It is now clear that Covid is here to stay and we are going to have to learn to live with it. Hopefully, it will mutate into a fairly mild disease which can be controlled with an annual vaccine, much like influenza.

For the moment, therefore, I do not intend to fully re-open my office. There will always be someone in the office from 9.00 a.m. to 5.00 p.m., Monday to Friday, but the door will be locked. Some of my staff will continue to work from home, but will always be contactable by e-mail.

Whose Income?

This is a particularly important question in relation to rental income. I once had a client who inherited a property from his parents and thought that he could treat the rental income as belonging to his wife, as she would not be liable to tax on it. That is not possible, as the basic rule is that the income belongs to the legal owner who, in that case, was the husband.

If two or more people own a property jointly, then they can generally allocate the rental income among them in any way they wish, except in the case of a married couple. There is a special rule for them, which says that the rental income has to be shared equally for tax purposes, unless they have made a legal declaration that the property is owned in unequal shares. In that case, the same unequal allocation has to be used for Capital Gains Tax if the property is disposed of.

Pension Policies

Up until a few years ago, the funds in a personal pension policy had to be used to buy an annuity (the technical term for a regular pension payment). The law was then changed to give more flexibility, including allowing all of the funds to be withdrawn in one go. Many people are now deciding to do just that.

The pension companies are required to ensure that people take professional advice, but that never seems to include taxation advice. I have seen cases where doing things slightly differently would have saved a lot of tax. That is because the funds withdrawn (apart from the 25% tax-free lump sum) are taxable income in the same way as wages or business profits. A large pension fund withdrawal can mean that someone who is normally a basic-rate taxpayer will have enough income in that year to be a higher-rate taxpayer. That situation can often be avoided just by spreading the withdrawals over two or three tax years.

Any pension withdrawal is taxed under PAYE, but the tax deducted will rarely be the "right" amount because the only way to calculate the correct liability is using the taxpayer's total income for the year from all sources. The way that the PAYE system works is to treat the pension withdrawal in the same way as one month's salary from a job. That can mean that a lot of 40% tax is deducted by the pension provider.

When tax has been deducted, the pension provider will advise the policyholder that HMRC form P55 can be completed to reclaim the excess tax. Unfortunately, that is not an exact calculation because the form has to use an estimate of what total income for the year will be. HMRC will make a refund, but some of that may have to be repaid if actual income is higher than estimated.

Anyone in self assessment should be wary of using form P55 to claim a refund, as all it means is a bigger tax bill on other income when the tax return is prepared. It will often be better to not claim the refund and have a lower tax bill at the end of the year.

Cryptocurrency

Anyone buying and selling Bitcoin or any other cryptocurrency needs to be aware that profits are liable to Capital Gains Tax (CGT). Everyone, though, has a CGT annual exemption (currently £12,300) so gains less losses in the tax year on cryptocurrency and any other chargeable assets disposed of (such as property) need to exceed that figure before any tax is payable.

If someone buys cryptocurrency, then sells it all and does not buy any more, then the calculation of the gain or loss is simple: it is just the difference between the cost and the sale proceeds. It is more likely, though, that someone who trades actively will sell only part of their holding at any one time. In that case, the sale cannot be identified with any particular purchase, so the gain or loss has to be calculated using the average cost of the cryptocurrency holding. Every time there is a new purchase, that average cost will change, so it is essential that detailed records are kept.

They are the basic rules, but then there are anti-avoidance provisions similar to those relating to holdings of stocks and shares. The most important of those is the rule that sales must first be matched with any purchases on the same day or up to 30 days afterwards. That prevents an old practice called "bed and breakfasting" when someone who had large Capital Gains could create a loss to offset by selling shares/cryptocurrency worth less than original cost, then buying them back the next day at virtually the same price.

In rare cases, trading in cryptocurrency can be extensive enough for it to be considered a business, in which case profits are liable to Income Tax rather than Capital Gains Tax. If there is a loss over the tax year as a whole, then that can be set against other types of income.

Someone who mines cryptocurrency, but is not regarded as being a business, is also liable to Income Tax on the value of the cryptocurrency when received. The same value is treated as the cost for Capital Gains Tax purposes.

MTD for VAT

MTD for VAT, which requires traders to file VAT returns using a computer program and to keep records on computer, has so far applied only to those businesses with a turnover above the VAT registration threshold of £85,000. All other VAT-registered businesses will be brought into the system next year, from the first VAT quarter starting after 31 March 2022.

If anyone needs any help or advice on what software to use, please contact me.

Health and Social Care Levy

I gave details in my September newsletter of this new levy, which will apply from 6 April 2022. The government has since announced how it will be collected and allocated.

The Health and Social Care Levy will be paid directly to the Health Secretary, but HM Treasury will decide how to allocate it between healthcare and social care, as well as how to distribute it among the four home nations. The additional 1.25% dividend tax, introduced at the same time, will go to HM Treasury, so there is no guarantee that any of it will be used to fund health or social care.

Tax Payments

For most people in self assessment, a tax payment is due on 31 January 2022. HMRC is currently sending out statements showing the amount due, but only where they have already received the tax return for the year ended 5 April 2021. They will not issue reminders, statements or blank payslips in other cases, but the tax still needs to be paid on time.

As I submit tax returns up to the 31 January deadline, I will advise clients what to pay. If previous tax payments have been made electronically, then that is the best way to pay, using the same reference and bank account details. If that is not possible, I can provide a payslip to send with a cheque.

Pass it on

Please feel free to copy or pass on this newsletter to friends and business acquaintances. Anyone who would like to be added to the mailing list should e-mail me at the address below.