The Schmidt Tax Report

Tax, Money & Property

September 2017

The best measure of a man's honesty isn't his income tax return. It's the zero adjust on his bathroom scale. - *Arthur C Clarke*

The Schmidt Tax Report

Tax, Money & Property

Tax

3 News
This month's main tax stories.

4 Editor's Notes
How mediation with HMRC may be right and going cashless may be wrong, as well as a look at HMRC's increased anti-evasion activities.

6 Ask the Experts
This month's questions concern main residence exemption and stamp duty land tax.

6 The Business Column
All of the issues for setting up a business abroad – be it a subsidiary of a UK-based business or a 100% foreign venture – including transfer pricing and transferring assets abroad.

8 Inheritance Tax: Vanquishing the 'gifts with reservation' enemy
Two ways to avoid the 'gifts with reservation' rules and so lessen your inheritance tax.

9 Feature: HMRC: The boy who cried wolf
Are the Revenue's so-called tax crackdowns anything other than superbly orchestrated bluffs to effortlessly generate large sums of tax revenue?

10 Offshore News
Abu Dhabi foundations, Brussels intermediaries and Cyprus residency rules, more about the Panama Papers, offshore asset holders and nom-doms plus Trinidad and Tobago trouble and Turkish complexity.

12 Feature: Nothing into Something?
We try to make four tax relief expenditure somethings out of four taxable profits and income nothings.

13 Feature: The Residence Nil Rate Band – Valuable new benefit or merely a shuffling of the cards?
Carolyn Gowen investigates whether the IHT changes introduced by David Cameron's second government spell the end for estate planning.

15 CGT Alchemy
Turn your buy-to-let property into furnished holiday accommodation to make some capital gains tax magic.

Money

16 News
Mortgages, tracker funds, telematics-based insurance, lasting powers of attorney, annuities and AIM shares. Also, is this the end for built-in obsolescence?

17 Alternative Investment Opportunities
What's hot and what's not in the world of alternative investing, including an in-depth look at investing in small businesses.

Property

19 Property Notes
We check out WeWork, the shared office provider, and why it continues to blossom, then revisit two reliefs: business property relief and principal private residence relief.

20 Stamp Duty Land Tax: The exception that proves the rule
How to use a limited-liability partnership to avoid stamp duty land tax when transferring property within your family.

20 VAT Conversion
The VAT issues surrounding converting property – how times have changed...

21 Transferring Buy-to-Let Property Tax-Free
How to avoid paying inheritance tax on rental property.

22 Lower Turnover May Mean Lower Prices
House prices are stagnating, even reducing – and here's why.

22 Landlords Look North
While London buy to lets become less attractive, we look at the 'booming' areas away from the capital and remind landlords of some issues to be aware of when looking to buy to let.

22 Commercial Property Update
The value of commercial property is rising, even in the face of Brexit and online retail.

23 Five Overseas Property Opportunities
Along the Ligurian and Irish coasts, on the island of Rhodes and in Berlin and Taos (which is 70 miles north of Santa Fe).

News

Making tax digital – very slowly

Businesses will not be forced to use the making tax digital (MTD) system until 2019 and only then to meet their VAT obligations, the Treasury has announced. This will apply to businesses that have a turnover above the VAT threshold. The smallest businesses will not be required to use the system, although they can do so voluntarily. Mel Stride, Financial Secretary to the Treasury, has said that the government has listened to concerns about the pace of change and was taking steps to ensure a smooth transition to the digital system. Originally, MTD was to have been brought in much faster.

New money laundering watchdog

A new Office for Professional Body Anti-Money Laundering Supervision (OPPAS) is planned to tackle weaknesses in the supervisory system. There are 25 anti-money-laundering supervisors in the UK, 22 of which are the professional bodies of accountancy and legal service providers. The new watchdog will work with them to help ensure consistently high standards of supervision. It will have powers to censure or recommend the removal of those bodies that do not comply with their requirements set out in the money-laundering regulations.

Umbrella warning

As a result of reforms introduced last April, many nurses, social workers and other public sector locums have been tempted to join high-risk tax-avoidance schemes in an attempt to avoid losing up to a quarter of their take home pay. The umbrella companies provide payroll services and act as employers to freelance workers and provide a convenient way to deal with administration; however, some are exploiting their clients and abusing the tax system. The situation arose after the government decided to clamp down on what it considered disguised employment in the public sector. Temporary workers who are not genuine freelancers can no longer be paid off payroll. According to a website offering advice to contractors, Contractor Calculator, as much as three-quarters of government departments have lost skilled contractors as a result of the changes.

New dynamic coding system not working

In July HMRC introduced a new "dynamic coding" system (their words!) designed to adjust PAYE codes automatically so that taxpayers do not end up paying too much tax or receive an unexpected tax bill at the end of the financial year. However, reports in the media indicate that the new system has been unable to deal with data glitches, bonuses and employees on foreign assignments. It has also been designed so as to collect tax more quickly, which has resulted in some taxpayers facing large and unexpected fluctuations in their take home pay. HMRC has denied that the new system is not working.

£24.8bn tax underpayment

HMRC has announced that large companies potentially underpaid £24.8bn in tax in the year to March. This represents a rise of 14% from the year before. It is also a 31% increase in the sum from two years earlier. In an effort to stop larger companies reducing their tax bills, the government now requires them to publish their tax strategy, which will set

out their approach to tax planning and their relationship with HMRC. Apparently, at any one time, approximately two-thirds of large businesses are under inquiry, often involving multiple disputes that can drag on for years.

Charitable giving on the rise

HMRC has reported that almost £1.5bn of tax relief was claimed by individuals making gifts to charity last year, an increase of more than 50% since 2012. Those with annual incomes of at least £250,000 were responsible for about half the total value of donations declared on self-assessment forms. Interestingly, the Institute for Fiscal Studies, a think-tank, believes that more than two out five higher-rate taxpayers do not reclaim tax on donations – mostly because they were not aware they could. Overall, charities received almost three times as much in relief as individuals last year. There was a 32% increase in the cost of tax relief to charities in five years to £3.8bn.

Employment practice review

Over the summer, the Taylor Review published its report on employment practices. Entitled *Good Work: The Taylor Review on Modern Working Practices*, it makes wide-ranging proposals on working practices in the gig economy and has significant implications for all employers. In theory, the government has until the end of the year to respond to the review, and any proposed reforms will have to pass through Parliament before they can be implemented. However, given the ongoing uncertainty surrounding Brexit, and the fact that the government only has a small majority in the House of Commons, many people believe that none of the Review's proposals will ever pass into legislation. The Review's main recommendation is to redefine the legal definition of a worker, replacing it with the term 'dependent contractor'. Such a person would be entitled to rights such as sick pay, holiday pay and the national minimum wage.

Pensioners account for one in five taxpayers

Royal London, the mutual insurer, recently asked HMRC (under the Freedom of Information Act) to supply details of how many pensioners now have to complete annual tax returns. The answer was that whereas in the early 1990s one in nine pensioners completed tax returns, now it is more than one in five. In 2016, 1.7 million people aged over 65 were forced to complete an individual tax return and more than a quarter of a million of these were aged 80 or over. Sir Steve Webb, director of policy at Royal London, pointed out that: "It is clear that even retirement does not mean freedom from the misery of the annual tax return." However, the increasing number of self-pensioners being dragged into the self-assessment process is indicative of their relative wealth.

Lawyers and accountants £15.5bn in tax

PwC has analysed the contribution made by legal and accountancy businesses and their workers to the Exchequer and have found out that the total amount of taxes generated equal £15.5bn. In all, some 60,000 firms employed 693,000 people in the UK. The total amounted to 2.5% of total receipts in the UK to the end of June 2016.

One in three film EIS schemes fail to break even

Alanbridge, a specialist researcher of tax advantaged funds, has analysed the media Enterprise Investment Schemes (EIS) approved over the last three years and has found that a third of them failed to break even. This was before taking account of the tax breaks available to investors which reduce the cost of every pound of investment to 70 pence. High fees often appear to be the reason returns to investors were so low. Fees were commonly about 12% but some funds charged over 20%.

Gold dodge stopped

HMRC took the case of two company directors who each received payments of about £150,000 through a series of convoluted steps involving an offshore trust and the purchase and immediate sale of gold assets to an expert panel in order to ascertain whether such a tax scheme was "abnormal and contrived". The expert panel said that it was a clear case of an attempt to frustrate the intent of Parliament by using intricate and precise steps to exploit tax loopholes. The findings will allow HMRC to use the general anti-avoidance rule (GAAR) introduced in 2013 against such schemes.

Disguised remuneration crackdown

HMRC has issued a warning to British taxpayers who have used offshore trusts to avoid paying income tax (referred to as 'disguised remuneration' schemes) and who now seek to hide what they have done. Typically, schemes involved the employer paying a contribution to a third party, generally an employee benefit trust (EBT), instead of paying it directly to the employee. The third party would forward the money (less a fee) to the employee as an interest-free loan that would never have to be repaid. In 2016, George Osborne, then Chancellor of the Exchequer, announced that the government was going to attack such schemes, and subsequently the Supreme Court ruled in favour of HMRC in a long-running dispute with Rangers football club, which had employed EBTs to pay its players and staff. Taxpayers faced with substantial backdated tax may be tempted to sign documents stating that the sums they received from their disguised remuneration schemes were not actually loans. HMRC has announced that this approach will not work and could result in criminal prosecution for providing inaccurate information.

Editor's Notes

Don't fight, mediate

In an argument with HMRC? Worried about the cost? Frustrated by their attitude? Keen to resolve things quickly? For the last few years, HMRC has been employing alternative dispute resolution (ADR), aka mediation, and it is, finally, starting to gain some traction. During the last tax year, HMRC engaged in mediation with 1,265 taxpayers. For the most part these were small to medium-sized businesses engaged in a tax dispute with one or more divisions of HMRC. Could it work for you? It depends a bit on luck. Some HMRC ADR teams are highly motivated and open-minded; others, less so. One of the key things to establish at the outset is who the mediators are going to be. The options are an HMRC-appointed mediator, one that you appoint, or both. There are rules about whether HMRC will accept a dispute for ADR. In summary, these are:

- You and HMRC have different views on exactly what's happened – the facts.
- Communication between you and HMRC has broken down.
- You need to know why HMRC hasn't

agreed evidence that you've given it and why it wants to use other evidence.
• HMRC needs to explain why it needs more information from you.
• You're not clear what information HMRC has used and think it may have made wrong assumptions.

Of course, mediation is not going to work on any dispute that hinges on HMRC's interpretation of the law or where there is a wider policy implication.

Anyway, if you find yourself in an argument with the taxman, it certainly makes sense to avoid the cost and time of a lengthy inquiry if at all possible. One option is most definitely to try mediation.

Why Matthew Taylor is wrong

A little over a year ago, Matthew Taylor, chief executive of the Royal Society for the Arts, was asked to lead a review considering how employment practices need to change in order to keep pace with modern business models. The review considered the implications of new forms of work, driven by digital platforms, for employee rights and responsibilities, employer freedoms and obligations, and our existing regulatory framework surrounding employment.

There is one aspect of the Taylor Review we hope never sees the light of day. Taylor says that the government: "Should consider accrediting a range of platforms designed to support the move towards more cashless transactions with a view to increasing transparency of payments, supporting individuals to pay the right tax." In other words, people now being paid in cash should be paid via a government app. The review said that such a move would, over time, mean that the only people who participated in the informal economy did so as a matter of conscious choice, rather than through inertia. The proposal is a radical solution to the problems of policing the hidden economy, which could cost as much as £6.2 billion a year in lost revenues.

The idea of introducing a digital platform to replace cash-in-hand may suit HMRC, but I doubt it will suit anybody else. The idea that self-employed gardeners, window cleaners and childminders should be encouraged – and perhaps eventually forced – to accept payment through a government app is flawed. Even if these workers are not declaring their income (and that's quite an assumption), they are the lowest paid and least advantaged employees in the country. If they were to get proper accounting advice, the chances are that they would owe little or no tax anyway. Given their low incomes, it is not unfair to assume that they are less likely to be able to set up and use an online payment application. Finally, such a system would be open to future government abuse.

How HMRC hunts down tax evaders

In recent years, HMRC has been heavily criticised by Parliament over the huge amount of money being lost to tax evasion and the hidden economy. Some estimates place these losses at more than £11 billion a year. As a result, HMRC has invested a huge amount of money in ferreting out tax evaders. Indeed, it is probably fair to say that the risk of being found out as a tax cheat has never been higher. Here is a quick summary of HMRC tactics:

• At the heart of HMRC's counter-evasion efforts is a powerful computer program called Connect. Ever since 2010, Connect has been analysing vast quantities of data in its search for individuals and businesses that are underpaying their tax. In particular, it often takes disparate, previously unrelated information in order to build up networks of relationships. Where does it get the information? Some of it, of course, comes from the tax returns but some includes everything from bank interest to credit card data and from Land Registry reports to social media. Recently, HMRC acquired the right to force Apple, Amazon and Airbnb to hand over data, including the names and addresses of sellers and advertisers, that would help it identify tax-evading businesses. PayPal is another new source of data. Money service businesses, such as currency exchange services, will also be next on the list. As you can imagine, many people feel that HMRC is invading individuals' privacy. The Electronic Money Association (it represents companies such as eBay and PayPal) describes the transfer of personal data as having a profound impact on consumer trust.
• Information supplied by overseas governments. Under the new Common Reporting Standard, most countries in the world will now provide an automatic exchange of information to each other. HMRC has already received information from the Crown dependencies and overseas territories as well as from the US.
• HMRC has a special campaign to find what it describes as 'ghosts' (people whose entire income is unknown to HMRC) and 'moonlighters' (people known to the Revenue but who have additional sources of income which they aren't declaring). In order to find these two groups, HMRC is seeking new sources of information, such as local authorities. For example, tax inspectors are now demanding that local authorities pass on details of anyone who is renting out a property. HMRC wants everyone in business to have to apply for a licence, to make it harder to hide from the tax authorities.
• HMRC has lobbied government for all sorts of new powers and, in particular, tougher penalties and more prosecutions. Parliament has (so far) been happy to meet HMRC's requests.
• Last year, HMRC received 113,000 reports from the public providing information about tax fraud. It paid nearly half a million pounds to confidential informants.
• Leaks – such as the Lagarde list, which was stolen from HSBC in Geneva, and the Panama Papers, which were leaked from a Panamanian law firm – have helped to provide additional information.
• Social media offers HMRC a vast treasure trove of data. In particular, the taxman searches for proof of expenditure (such as an extravagant lifestyle) that is greater than the declared income.
• Banks, accountants, solicitors and other professional advisers must also complete suspicious activity reports relating to any customer or client they believe may be involved in money-laundering or terrorist financing. This, obviously, also provides HMRC with useful information.

When one looks back to how HMRC gathered data ten, and even five, years ago, one sees how much has changed. The organisation has probably never been more efficient and it has probably never been harder for those evading tax to safely do so. And yet it must be said that most of the people who get caught in HMRC's net are small fish. In a way, it is not low-level tax evasion which is really losing the Exchequer money but the big international corporations that move their profits from country to country perfectly legally. If big business were paying more tax, small business and individuals wouldn't have to be pursued in this way.

Sacrifice isn't in it

This year's Finance Act introduced something called the new optional remuneration arrangement (OPRA),

HMRC's latest clampdown on the ever-growing popularity of salary sacrifice, which is, apparently, reducing the Treasury's tax take. We will be covering the new OPRA legislation as soon as all the different rules and exclusions become clear. An initial read of the Finance Act suggests that although it will become harder to make salary sacrifice arrangements there will still be plenty of opportunities. However, HMRC has persuaded Parliament that if an arrangement is caught by the new rules the amount taxable should be higher than the salary sacrificed or the value of the benefit in kind received. This seems incredibly unfair. Anyway, there are transitional rules until 2021 for some benefits and ambiguities over other benefits. In the meantime, our advice would be to take detailed professional advice if, as is sensible, you are planning to take advantage of OPRA.

Ask The Experts

Q. I was very interested in the article on main residence exemption in the July issue. However, due to my limited knowledge, it did raise a few questions in my mind:
1. Presumably, letting relief is only available for the main residence as Mick could claim it but not Pat?
2. When the second property is sold does Mick then need to make another election, bearing in mind that he still has two properties?
3. The problem that occurs to me is that when Mick eventually sells the property he is actually living in he will, I assume, have to take into account the period for which it was not his main residence for tax purposes and will have to pay capital gains tax (CGT) on an appropriate proportion of any gain realised. As this is likely to be his most expensive property and could well be the one which has increased most in value he could have a significant CGT liability.

A. 1. You are correct. Letting relief is available if one lets a property that has at some point been one's main residence.
2. In the example, Mick's actual home was his main residence by default for years 1 and 2. In the absence of a further election, it would have reverted to being his main residence by default for years 5–10 as it would not be possible for property 2 to be used as a residence since it was occupied by other people. The sale of property 2 would give the opportunity to make a new election in favour of the Spanish property, if desirable. Alternatively, once made, an election can be varied at any time, so Mick could have elected any time after year 5 for the 'home' or the Spanish property to be his main residence.
3. Again, you are correct. A proportion of the gain on the home would become taxable. In the example, Mick gives up 2/10 of relief on his home but gains 7/10 of relief on the second property. Whether this is a good deal or not depends on the relative values of the two properties and one's long-term intentions.

M. S., via email

Q1. My mother bought a commercial property a few years ago and added me to the deeds. I have now recently bought a residential property as my 1st home and was advised by the solicitor to pay the high stamp duty as I had a property already. I debated this with the solicitor but eventually relented and paid the stamp duty at the high rate.
Was I charged the extra incorrectly? If so, how can I claim it back?

A. It depends on why you were added to the deeds and the type of property your mother bought.

The enhanced stamp duty land tax (SDLT) charge only applies to residential properties. You say your mother bought a commercial property. If this property is not residential and has no residential part then you do not already have an interest in a residential property, so the increased charge will not apply to your home purchase.
If it is a residential property then:

- If you have legal ownership only but your mother still has 100% beneficial ownership then you would not be liable for the extra 3% SDLT.
- However, if you have a beneficial interest in the property and that interest is worth more than £40,000 then you will be liable to the extra SDLT on the purchase of your own house.

If you have been charged SDLT incorrectly, you will be able to claim a refund from HMRC. Follow this link: https://www.gov.uk/guidance/stamp-duty-land-tax-online-returns.

Q2. The commercial property was a former bank, and later converted to 2 shops and 2 flats above.

She pays tax on the income as she has 100% beneficial ownership. I am told that on her passing the property passes to me in its entirety, as "joint tenants with survivorship" I believe is what the deeds state.
Does that clarify the issue?

A. From your additional information we can confirm the property is a residential property.

However, it appears that you do not have any beneficial interest in the property at the moment.

If this is definitely the case then you will not be liable to additional rates of SDLT on the new property. But we would suggest you have it evidenced in writing that you do not have any beneficial interest at this stage.

N. W., via email

The Business Column

Setting up a business overseas

This piece is aimed at those who have either recently set up a branch or subsidiary of their business, or a new business, outside the UK, or are considering doing so. Obviously, tax is going to loom large in any thoughts as to how to structure this offshore business; and the tax issues can be 'interesting': in the same sense that the supposed Chinese curse reads: "May you live in interesting times."

Get the right advice

The first point to make is that, where you are setting up in a non-UK jurisdiction, it's very important to get local advice on board sooner rather than later. However good your UK tax adviser is, he's not going to be professionally competent to advise on the tax rules and tax planning in a non-UK country. So, you do need to have somebody in that country who knows what he's talking about, to make sure you don't trip yourself up in the planning in any way.

On the face of it this may seem like a good reason to have your tax and accountancy affairs dealt with by one of the very large

international firms of accountants. If they are large and international they will obviously have a local office in the country you are thinking of opening up in. In my experience, this advantage is much less than you would have expected, though. In practice, even the very large firms seem to be organised as if they were entirely separate firms, dealing with the offices of the firm in different countries effectively at arm's length. So, arguably paying the high premium in terms of 'large-firm' fees for your UK business doesn't really pay off particularly well when setting up overseas.

Company or branch?

This is a decision you will need to make at some point, and it relates to the two different options you have for structuring the offshore branch of your business, where it is effectively doing the same kind of thing, or is in the same ownership, as a business you are carrying on in the UK. If you set up a company which is incorporated in the local jurisdiction, this will obviously be subject to tax in that jurisdiction; however, that's not as different from the situation which applies under the other option, which is making the offshore business a mere branch of your UK company, as you might have thought. Most non-UK jurisdictions will charge tax on the profits of the branch as if that branch were a local company in any case.

Where the choice, between setting up a branch in the foreign country and a foreign company, becomes particularly significant in tax terms is where that local country has low or no tax. For example, setting up a business in the UAE, where there is no recognisable corporation tax system, as a locally incorporated and resident company (of which more below) can pay increased dividends – literally.

Running a United Arab Emirates (UAE) business as a branch of a UK company, on the other hand, is simply volunteering to pay UK tax when perhaps you didn't need to, because UK-resident companies are subject to UK corporation tax on their worldwide trading profits. By contrast if you have a commercial justification for setting up, say, a Dubai company as a subsidiary of your UK company, you can end up with no tax on profits (because Dubai has no profits tax to charge) – combined with the ability to pay the gross amount of the profits back as a dividend to the UK company, again with beneficial tax results.

Transfer pricing

This is likely to raise its ugly head if you have connected companies in different countries. What transfer pricing is all about is the need for transactions between different countries, generally speaking, to be at a fair market rate. So, if you buy and sell goods or services between companies under common control but in different countries, you will need to make sure the price is a fair one. The penalty of not doing so is that the tax authority in the country which thinks it is not seeing enough profits can charge tax as if the local company were making the enhanced profits. This can happen even where the other country is not allowing any relief and is charging the full amount of profits actually declared there. So, you can end with a double whammy.

Transfer pricing problems arise not just on the export and import of specific goods and services but also on financing. If a company in one country loans money to a company in another, the creditor country (so to call it) can insist on levying tax as if a full market rate of interest were being charged between the two companies. So, again, this is an area to plan for correctly right from the word go, and with the benefit of the input of local advice.

Watch out for 'transfer of assets abroad' rules

You need to be aware of these rules if the offshore company you set up is likely to make substantial profits. In the UK (and this is mirrored by similar rules in many other countries), there is an anti-avoidance regime which is aimed at preventing you artificially diverting profits or other kinds of taxable income from the UK to another country. If you have artificially diverted profits in this way, you as a UK resident can end up paying tax on them as if they were your income, even where, in fact, the profits are retained in the offshore company. In order for the transfer of assets abroad rules to bite, you need the following factors to be present:

- Income is receivable by a non-UK resident person.
- Somebody involved, however indirectly, in arranging for this to be the case is UK resident.
- That UK-resident person may be expected, formally or otherwise, directly or indirectly, to be able to enjoy the benefit of that income at some point in the future.
- The avoidance of UK tax was a significant element of the thinking behind the arrangements – even if it wasn't the main motivation.

There is an exception from these rules for non-UK domiciliaries who pay the 'remittance basis' charge; but this is becoming less and less useful as the government encroaches more and more on the tax privileges of non-UK domiciliaries.

It can be particularly painful to be bitten by these rules, because not only might you end up with several years' worth of UK tax becoming payable in arrears, as a result of an HMRC investigation, but also the person who ends up being taxable tends to be a UK resident, paying tax at rates of up to 45%. If, instead of diverting the income abroad, it had simply been put through a UK company, the rate would only have been 19% (using the current rates, at least).

It's therefore very important to be able to show that whatever arrangements you make in the way of setting up a non-UK company are commercially driven. In the Dubai example I gave earlier, I was talking about a business specifically based and run in Dubai, where it makes commercial sense, for all kinds of reasons, for the business to be operated through a Dubai company. But steer clear, from this point of view, if you can, of situations where the company is in a tax haven (like the Channel Islands or the BVI) but the actual business is being run in some other country. It would be very difficult to convince the taxman that there is no significant tax motive in this sort of arrangement.

'Going the whole hog'

So far, I've really been talking about the situation where the main man, and indeed the main business, is unquestionably UK based. The issues of whether to set up as a company or a branch, transfer pricing and the transfer of assets abroad rules all need to be negotiated very carefully, like a minefield. There is a more radical option, though.

This is for the main driver behind the business to become non-UK resident. Bearing in mind how little time you can spend back in the UK under the new UK residence rules, especially if you have always been UK resident up to now, the task of losing your UK residence can be

quite a formidable one. However, consider the potentially massive advantages if this is practically feasible. The main man can, if he chooses, become resident in a low- or no-tax jurisdiction, and, with today's very efficient communication methods, it may well be feasible for him effectively to run the non-UK, and even the UK, part of the business from that location. Setting up from such a residence base has the obvious advantage of being outside the UK transfer of assets abroad rules, because the relevant person is no longer a UK resident and HMRC would fall at the first hurdle, therefore, in trying to impose the rules. Moreover, if the main man (or woman) does actually contribute a substantial amount to the earning of the profits of the business, it is fair for those to be charged out of the UK or other high-tax jurisdiction by way of a management charge – which then can end up escaping tax, or paying a low rate of tax, in the country where it is received. This is undoubtedly 'A level' or even degree level tax planning. However, those with sufficient imagination, and a sufficiently substantial business, to grasp the nettle of personal non-UK residence can easily achieve a fairly amazing tax-planning result.

Alan Pink FCA ATII is a specialist tax consultant who operates a bespoke tax practice, Alan Pink Tax, from offices situated in Tunbridge Wells. Alan advises on a wide range of tax issues and regularly writes for the professional press. Alan has experience in both major international plcs and small local businesses and is recognised for his proactive approach to taxation and solving tax problems. Alan can be contacted on (01892) 539000 or email: alan.pink@alanpinktax.com. His book, The Entrepreneur's Tax Guide, is on sale from Head of Zeus for £20 and from all good bookshops.

Inheritance Tax: Vanquishing The 'Gifts With Reservation' Enemy

Inheritance tax (IHT) is a sort of 'delayed action' wealth tax. Where other countries charge people with assets over a certain threshold an annual 'fee' based on the value of those assets, the UK doesn't. What we do instead is arguably more vicious, though: it's charging 40% tax on the value of the estate on death. What enables the UK government to get away with this, of course, is the fact that the person whose assets they were is no longer around to kick up a fuss. Mostly, beneficiaries just accept that they are lucky to get 60% of the deceased's estate.

It may also be relevant to bear in mind that when the tax was first introduced, by Mr Healey in 1974, the top rates of the tax were very much higher, at 75%. What's more, the original form of the tax as introduced by the socialist government in the mid-1970s had no real escape route. Mrs Thatcher's government soon changed that, with a rule introduced in 1986 that gifts made during a person's lifetime would reduce the value of the estate effectively, but they didn't need to pay tax when they were made (which is where the new rules differ from the old).

This is an example of a politician having a good, politically motivated, idea, which the bureaucrats then point out all the difficulties with. One can imagine the Sir Humphrey of those days saying to the Chancellor: "That's all very well, Minister, but what's to stop people giving their assets away, and reducing their inheritance taxable estate, but still really maintaining the use and enjoyment of the asset themselves?" Here the parliamentary draftsman came to the rescue, dusting off some old rules from estate duty days, under which gifts made with any kind of 'reservation' were treated as ineffective for tax purposes.

The classic example of a gift with reservation (GWR) is the old couple who give away their home to their children. If they continue to live in the property, and the children don't, this is a GWR because both of the triggering criteria are present:

- First, use and enjoyment hasn't been transferred to the transferee.
- Second, the transferor hasn't ceased to enjoy the benefit of the asset.

Residential properties are most frequently the ones where donors run into GWR problems, and so we thought we'd give you a couple of ideas for sidestepping these.

1. Arm's-length rent payment

One suggestion that is often made for giving away your cake and still having it is to give your home away, usually to your children, and pay them a fair market rent for continuing to live there. This is specifically outside the situation where GWR bites: so is it a no-brainer?

By no means. There are two, or possibly three, major drawbacks to the idea.

The first drawback is that the rent will be taxable in the hands of the recipient children. If you combine that with the fact that the parents won't get any tax relief for paying the rent (because you can't claim rent on where you are living as a tax deduction), you are actually creating an income tax charge, so to speak, out of nowhere. If that tax is payable at 40%, there will even potentially come a time when you've ended up paying more income tax as a result of this arrangement than the IHT you would hope to save.

The other tax drawback is that while the gift of the house to the children is exempt from CGT (because of its having been the parents' main residence) the children themselves won't be eligible for CGT relief on any future sale of the property, unless, that is, they are also living in the property as their main residence throughout their period of ownership. This contrasts with a situation where the property is sold eventually to the third party by the parents or by their executors, where there would be no CGT.

There are also the practical difficulties. First and foremost, how is the rent payment to be funded? If the parents are looking to fund the rent payment by taking income from one of their investment assets, there's an argument for saying that it would be more tax efficient to transfer that investment asset over anyway. The other practical problem is deciding what a market rent is.

This is very much a sharp end decision, because if you undercook the rent, and end up paying what HMRC, in its wisdom, decides is less than a full market rent, you lose the whole benefit of the arrangement, with the whole house coming back into the computation of the taxable estate. So, you not only need to be careful that you are setting a fair market rent at the outset but also need to make sure that the rent amount is reviewed on a regular basis.

Where we are going on all of this is that the idea of making a gift, and continuing to enjoy the occupation of a property, is very much more practicable and feasible where you are looking at a second home rather than the main home. For a start, the second home will not be eligible for CGT main residence relief in any event, and therefore putting it into the names of others doesn't forfeit the

CGT-exempt status you would otherwise have enjoyed. Second, there is nothing wrong with the donors (the parents in our example) continuing to occupy the property from time to time: but this need only be on a 'pay as you go' basis. If the second home is a flat in town, for example, what would you charge someone else on Airbnb to occupy the property for a week or two? Whatever that figure is, make sure the parents pay it over to the children on a fully business-like basis, and you have circumvented the GWR rule. For those with private boats or private planes, the principle is, of course, exactly the same. If father wants to take the family yacht out on the Mediterranean for three weeks, he simply looks up what it would cost to charter an equivalent yacht from a third party and pays that charter fee over to the new owners, his children.

2. Multi-generational occupation

Which is a rather pretentious way of describing the situation where the children continue to live in the home with their parents.

Where this is the case, there is a specific exemption from the GWR rules. Let's say Gladys has lived in her tumbledown old house in the middle of nowhere for years, ever since she and her late husband moved there and subsequently raised a family. She's now on her own, and becoming increasingly old and frail. Her daughter, Sue, has just gone through a messy divorce and is now on her own again in life. Having contracted an inveterate hatred for men as a result of her matrimonial experiences, she's unlikely to marry again or enter into another relationship.

On the other side of the coin, her aged mother is now becoming more and more dependent on outside help to enable her to continue to live in her home. So Sue moves in with Gladys and becomes half-daughter, half-carer.

In recognition of this, Gladys makes a gift to Sue of half of the property. They share expenses of running the property on an equitable basis. Result: the gift of the interest in the property is not a GWR, even though Gladys is continuing to live in the whole property as her home.

Feature: HMRC: The Boy Who Cried Wolf

We all know the fable about the boy who cried wolf. He was looking after some sheep and thought it would be fun, and exciting, to frighten everybody by shouting out that there was a wolf. Everyone came running, only to find that the boy had made it up. Inevitably, after being fooled in this way a few times, they would ignore his shouts, and ultimately a real wolf came along, carried off the sheep and nobody lifted a finger to help the boy.

Now we move on to a little scene in the Middle Ages. A castle is being besieged and its 'garrison' numbers an old man, a boy and the women folk. In the face of the besieging army, what can so few people do? If the enemy outside realised how lacking in manpower the castle was, they would easily be encouraged to take the castle by storm. So, what the inhabitants of the castle do is quite clever. They take a collection of spears and helmets from the storeroom and lean a spear in each gap between the crenellation. From the top of each spear, they hang a helmet. In this way, it looks as though there is a large defending force in the castle. Discouraged by this, they either lift the siege or wait outside in indecision, until such time as a relieving force arrives from elsewhere to drive them away.

So, an abrupt gear change now, from fictional tales of long ago to the HMRC of today. Within the tenure of office of a chancellor as recent as Gordon Brown, the taxing authority (which he merged from two previous organisations, HM Customs & Excise and the Inland Revenue) employed in total over 100,000 people. A truly brutal cost-cutting exercise, in the period since, has reduced the HMRC payroll to something like half of this figure. (They also seem to be economising by not teaching their staff the rudiments of the tax system – but that's another matter.)

All of this has been happening at a time when the UK economy has been growing, and the tax system has been becoming ever more complex. So, something has to give. When the writer of this article was at school, he got a very hurtful report from his geography teacher. It read: "[So and so] has long ago given up all pretence of work in this subject." This was hurtful because I *was* pretending to work! Similarly, it seems reasonably certain that HMRC's response to an increasing workload with a massively decreased workforce has been to pretend. Let's take an example. As long ago as 1997, or even late 1996, the Inland Revenue announced that it was going to crack down massively on bogus 'self-employed' individuals in the construction industry. Because it's so much more advantageous, in most people's cases, to be treated as self-employed than employed, it was once very widespread for individuals who 'should' really be on the payroll of the construction company, for which they are working for five days a week, to set themselves up instead as if they were separate businesses.

Although the Revenue did its best to catch the more outrageous examples of employees dressed up as self-employed, inspectors were hampered even then by the size of the industry sector and the extremely complex and difficult rules you need to understand in order to determine whether each individual was truly self-employed or should be taxed as an employee.

You'd have thought that the sensible way to deal with this horrendous problem would be either to make the rules simple or to remove the tax benefits of being self-employed as compared with being employed. But both of these would be profoundly un-British, and so the problem continued.

Then someone in the Inland Revenue came up with a bright idea. "Let's publicise it that we are going to have a vicious crackdown on bogus self-employment in the construction industry. We'll give the industry as a whole a few months to get their house in order, and then we'll announce a massive campaign on 6th April next."

One can imagine the meeting at which this is suggested, and one of the other attendees raising the objection: "But we haven't got any manpower to do a massive crackdown!" "Yes, but they won't know that. All you need to do is make the announcement frightening enough, and make it seem as though it's coming from outside the Revenue itself, and you'll have all the contractors in the construction industry, especially the bigger ones, falling over themselves to do your job for you."

So, the idea was carried unanimously in this supposed meeting, and the professional and national press suddenly became full of 'leaked' stories that the crackdown was coming on 6th April 1997.

It worked beautifully. Hundreds, thousands, tens of thousands of individuals suddenly found that they were put on PAYE, and the large construction sector, which couldn't afford to adopt a gung-ho or selective approach, fell into line in the most satisfactory manner, from the Revenue's point of view.

It wasn't until months or even years after 6th April 1997 that everyone realised there had been no crackdown at all – just a few random checks, as was previously the case!
Moving on to three or four years ago, some of our readers may remember an advertising campaign where a pair of eyes were seen looking through a hole torn in a piece of paper. The threatening message was Orwellian: HMRC, like Big Brother, is watching you! I spoke to a very recently retired inspector of taxes while this campaign was going on and asked him how they reconciled that with the closing down of local tax offices all around the country, and the Revenue's withdrawal, effectively, from the local community. His reaction was derisive: you could drive a van around the town for nine months advertising that you do cash jobs and don't pay tax and no one would be any the wiser.

Bringing this history lesson up to the present day, there's recently been a high-profile documentary on the television (the HMRC PR people know what they're doing) whose aim is transparently to frighten people into compliance, particularly with regard to money held offshore and not taxed. We would be astonished if this wasn't just another example of the Revenue playing the same game again. How much more often can they cry wolf?

It's important to be clear that there are two things we are definitely *not* saying here:
1. We are not saying that it's OK to hide your income, offshore or anywhere else.
2. We are also not saying that the HMRC approach in these matters is a stupid one. In fact, we have to say this has been one of the most brilliantly successful new approaches to the raising of tax, probably, since tax was invented. The public as a whole seems to have bought wholeheartedly this picture of HMRC as an all-seeing, all-pervasive secret police. There's not a word of truth in it, but, as taxpayers and citizens, we can't help feeling that they have done a very good job of making the garrison look much bigger than it is, and hence frightening wrongdoers into submission.

We can imagine the reader saying, though, in response to this: "This is all very well, but what use do you expect us to make of this information, or rather speculation on your part?"

Apart from it always being good to adopt a realistic and well-informed approach to life and one's tax affairs, there's the fact that issues of tax are very often not black and white. Of course, you mustn't suppress your income or hide it in an offshore bank account. But where there are difficult issues of judgement, which you can decide either in your favour or in HMRC's favour, an excessively frightened approach, like a nervous rabbit in the headlights, could act unjustifiably against you. Know the strength of the opposition and you have a huge advantage in the battle, in which you're trying to keep HMRC from sticking an unjustifiably large shovel in your stores.

Offshore News

Abu Dhabi to introduce foundations

The Abu Dhabi Global Market (ADGM) has announced that it intends to establish a legislative and regulatory framework for foundations. It would be the first of its kind in the UAE. Detailed plans have yet to be unveiled but it is likely that it will be possible to create a new type of legal structure with its own distinct attributes, the confidentiality of the foundation's arrangements will be protected and the founder's ability to exercise control over a foundation will be safeguarded. It is expected that foundations will be able to be migrated from other jurisdictions with relative ease. The ADGM offers businesses an opportunity to earn money 100% tax-free and allows for 100% foreign ownership.

Brussels after intermediaries

The European Commission intends to introduce new transparency rules for tax advisers, accountants, banks and lawyers who design and promote tax-planning schemes for their clients. The Commission's intention is to make an amendment to the Directive for Administration Cooperation (DAC) forcing intermediaries to report certain cross-border tax-planning schemes to the relevant tax authorities prior to launching them. In particular, the commission is keen to stop any scheme that makes use of losses to reduce tax liability as well as the use of special beneficial tax regimes and arrangements through countries that do not meet international good governance standards. The scheme is very similar to the disclosure of tax avoidance schemes (DOTAS) already in force in the UK, Ireland and Portugal.

Trinidad and Tobago in trouble

The OECD-hosted global forum on transparency and exchange of information for tax purposes has criticised Trinidad and Tobago for not yet making sufficient progress towards a satisfactory implementation of the international tax transparency standards. The global forum announced that Andorra, Antigua and Barbuda, Costa Rico, Dominica, the Dominican Republic, Guatemala, the Federated States of Micronesia, Lebanon, Nauru, Panama, Samoa, the UAE and Vanuatu are all largely compliant while the Marshall Islands are partially compliant.

New tax residency rules for Cyprus

The Cypriot parliament has approved new rules regarding tax residency in order to provide for applicants who are unable to meet the existing 183-day requirement. The rule will apply retrospectively to the first of January 2017.

Prior to this new rule, it was necessary to spend an aggregate of 183 days in the tax year in Cyprus in order to be considered resident there.

Now a new test – referred to as the 60-day rule – means that it will be a lot easier for the internationally mobile to establish residency in Cyprus. The rule applies to individuals who in the relevant tax year:

- do not reside in any other single state for a period exceeding 183 days in aggregate; and
- are not tax resident in any other state; and
- reside in Cyprus for at least 60 days; and
- fulfil the following conditions: carry out any business in Cyprus and/or are employed in Cyprus and/or are a director of a company tax resident in Cyprus at any time in the tax year, providing that such is not terminated during the tax year; and
- maintain in the tax year a permanent residential property in Cyprus that is either owned or resident.

Germany pays €5 million for Panama Papers

BKA (the German police agency) has announced that it has acquired the Panama papers, a cache of 11.5 million documents stolen from the Panamanian law firm Mossack Fonseca, for €5 million. German police said that reviewing the data was likely to take several months. Investigators said they would also look for evidence of other criminal offences, including organised crime and arms trafficking.

French courts back Google

The Paris administrative court has ruled that Google Ireland Limited is not liable to pay €1.12 billion in back taxes as demanded by the French tax authorities for the period 2005 to 2010. The court gave its reason as being that Google did not have a permanent establishment or sufficient taxable presence to justify the assessment.

New British Trusts Registration Service

The new online registration service for trusts and estates has now been launched by HMRC. Trustees have until 5th October to register new taxable trusts and until 31st of January 2018 to provide information on existing trusts. Trustees will be required to provide information on the identities of the settlors, other trustees, beneficiaries, all other natural or legal persons exercising effective control over the trust and all other persons identified in a document or instrument relating to the trust, including a letter or memorandum of wishes. Details to be supplied about individuals include name and address and, if that address is outside the UK, the individual's passport number or identification card number, the individual's date of birth and the individual's National Insurance number and unique taxpayer reference, if any. If a trust has a class of beneficiaries, not all of whom have been determined then trustees must provide a description of the class of persons who are entitled to benefit from the trust, rather than individual names and addresses.

Trustees will also be required to provide general information on the nature of the trust. In the draft regulations these include its name; the date on which it was established; and a statement of accounts describing the assets, identifying the value of each category of the trust assets, the country where it is resident for tax purposes, the place where it is administered and a contact address. The current regulations only allow HMRC and the law enforcement bodies to access the information on the register. However, if the EU approves proposed amendments to the current legislation governing trusts then full public access will have to be allowed.

Return of the non-dom rules

The non-domicile reforms that were dropped from the 2017 Finance Bill have been reintroduced. From 6th April 2017, non-domiciled individuals who have been resident in the UK for 15 of the previous 20 years as at 5th April 2017 will be deemed domiciled for all personal taxation purposes. Individuals born in the UK with a UK domicile of origin, but who established a non-UK domicile of choice, will not be able to benefit from the non-domicile taxation regime if they are UK resident. The new rules will protect the taxation of offshore trusts established by non-domiciled individuals and oversea structures that own UK residential property will come within the scope of IHT. HMRC has announced that it will provide detailed guidance on the rules shortly.

Turkey is the most complex of all

The TMF Group has produced a financial complexity index ranking the world's largest jurisdictions on all aspects of compliance. Turkey, Brazil, Greece, Argentina and China are amongst the top ten most complex jurisdictions in the world for accounting and tax compliance, while the Cayman Islands, Hong Kong and the UAE are the easiest. It found Turkey to be the most complex jurisdiction over all in which to stay financially compliant, largely owing to the requirement to report in the Turkish language and currency. Unsurprisingly, the five least complex jurisdictions have simplified reporting requirements and beneficial tax rates: Jersey, Hong Kong, the UAE, the British Virgin Islands and the Cayman Islands.

First Italian non-dom

Italy has granted the first successful application for non-dom status following the introduction of a favourable tax regime for non-domiciled residents earlier this year. Newly tax-resident individuals in Italy can opt to pay €100,000 annual tax instead of taxing income on a worldwide basis. To qualify, individuals must have been non-resident in Italy for at least nine out of the ten years preceding their transfer to the country. The regime is valid for 15 years. The first individual to have been granted non-dom status was represented by Withers, the international law firm specialising in tax, trust and estate planning. The firm said that the high-net-worth individual was previously registered as a non-dom in the UK but decided to move to Italy to take advantage of the new status and to establish a new hub for his family.

HMRC frightens British taxpayers

HMRC is sending out millions of letters to British taxpayers warning them that if they are holding secret offshore accounts it could lead to "life-changing consequences". The *Financial Times* reported that professional advisers and financial institutions are rushing to meet a legal requirement to tell their clients by the end of August about the risks of holding undeclared offshore accounts. They are sending out letters that include a message from HMRC saying: "Come to us before we come for you." The letter describes a global transparency drive which will give HMRC new information about assets held in more than 100 countries. It also sounds a warning about higher penalties and the risk of criminal prosecution facing people who fail to disclose foreign income or capital gains. The *Financial Times* also pointed out that the government has chosen a policy of forcing financial institutions and advisers to make their clients aware of their reporting obligations, on the grounds that they know more than HMRC about whether their clients are likely to have offshore income.

Some advisers are concerned that clients will be annoyed by the tone of the letter, especially as it warns and threatens.

What the letter does not emphasise is that there is nothing wrong with having investments overseas. The only important thing is that you declare all taxable income and gains on your UK tax return. If you are not making any income or gains then you are under no obligation to advise HMRC.

HMRC has already received data about overseas accounts, structures, trusts and investments from the Crown dependencies and overseas territories. Interestingly, HMRC lowered its estimates of how much it would be collecting from the Channel Islands and Isle of Man from an estimated £1 billion to just £270 million.

Non-doms pay HMRC an average of £105,000

HMRC has released information about the number of UK non-doms, where they live and how much they pay in tax. It turns out that there are roughly 121,000 non-doms in the UK and that they pay a total of £9.3 billion in income, National Insurance and CGT. On average, each non-dom pays around £105,000 to HMRC – reflecting how many of them pay tax on large amounts of income generated in the UK. Non-doms based in London and the South-East contributed 86% of all the tax paid by non-domiciled individuals.

Feature: Nothing Into Something?

One of the most irritating aspects of the tax system is the existence of what are called 'nothings', that is expenditure which relates in some way to taxable profits and income but doesn't get any immediate tax relief. In some cases, this rather strange situation has come about for historical reasons: in other cases, it looks like envy or bloody-mindedness on the part of those writing the tax rules.

The wise citizen knows that there's no point banging one's head against the brick wall of inflexible rules. But there's often a lot of point in trying to roll with the punches, as it were, and see what advantage can be had from the situation.

So, we're going to be looking here at four particular different types of 'nothing', and see how, in some cases, we can make 'something' of them.

1. Purchase of buildings

Unless you're buying a property as part of a property dealing or development trade, there's no immediate tax relief for the purchase cost. If you're a landlord, letting the property to tenants, the cost of buying the fabric of the building, and the land on which it stands, isn't relievable, even though you do pay tax on the rents you receive. Similarly, these things don't give rise to any tax relief if you're a trader occupying the property for the purposes of your trade. So, the purchase of a property, in these circumstances, is a classic example of a nothing.

Until recently, you could get relief if the property was either industrial property or agricultural property. There was a special, if somewhat antiquated, system of 'capital allowances' which applied to those setting up factories, workshops, warehouses or agricultural buildings like barns and so on. It seems that the government wanted, at one time, actually to encourage people to set up manufacturing businesses in the UK. Not any more. These allowances were all abolished a few years ago, and so even factories don't give rise to the right to claim any allowances on the capital cost any more.

But there is just a chink of light at the end of this tunnel. Unless what you're buying, or building, is nothing but an empty shell – literally just floor, walls and roof – there is bound to be an element of inherent fixtures in the building, and this can in a lot of cases be a very substantial element. This element will be eligible for allowances at either 8 or 18% a year, depending on what type of inherent features they are.

Tax law, like any other kind of law, is a series of exceptions to exceptions to exceptions, though: so, the first point we have to make is that, unfortunately, plant of this sort which is inherent in a dwelling house is excluded from any allowances – unless the dwelling house is let as furnished holiday lettings.
So, what you're mostly talking about here is commercial properties, like office buildings, factories, warehouses, restaurants and, pubs. In the last three years or so, the regime for claiming allowances on these fixtures has got a lot stricter. HMRC intensely dislikes anyone claiming their due allowances, particularly in situations where there is a specialist capital allowances consultancy whose specialists assess the value of your claimable plant and pocket a reasonable fee for doing so.

So, if you're buying an existing building (rather than putting it up yourself), you need to make sure you have the capital allowance claiming part of the purchase all sewn up before you actually sign the contract of purchase. Ideally, you and the vendor of the property need to agree the value of the claimable fixtures before contracts are exchanged, and the vendor also has to pool the expenditure, in order to enable you to claim the allowances that are your due. It can be, and indeed usually is, too late now to try to do this after the transaction has been completed.

2. Entertaining

Notoriously, the cost of business entertaining (other than entertaining your own staff) is a nothing. No matter that you may be in a type of industry where such entertaining is expected, and therefore it's an essential item of expenditure in order to earn the profits of the business. In working out your taxable profits, you have to 'add back' the entertaining expenditure, and in consequence pay tax on higher profits than you've actually made. (There used to be an exception for entertaining overseas customers, part of some long-forgotten government 'export drive'; however, that relief was scrapped a very long time ago.)

As we say, there's no point banging your head up against the brick wall of such rules, however unreasonable they may seem. The only people affected by this rule are people in business, and they are such an insignificant minority as voters that the government can afford to ignore their concerns. Rather than trying to take on the world, then, what can you do in the way of getting some kind of benefit out of your entertaining expenditure?

We can think of one way. If you are running your own limited company, and you are friendly enough with a business associate to make going out for a meal with them really enjoyable, one pleasant aspect of the rules (or perhaps it's of the way the rules are administered) is that your own slap-up meal in the posh restaurant isn't taxable on you as a benefit in kind. It's true that the company itself can't claim a deduction against its profits for the entertaining expenditure. But you do end up eating and drinking, perhaps like a king or queen, at the expense of the business and without any personal income tax implications.

As with any principle like this, don't push it too far. If challenged, you need to be able to show that the meal, etc., was for business purposes. It's no good just taking out your family and claiming that, because your children might be customers of the business, the jolly is to be excluded from taxable benefit status!

3. 'Capital' expenditure

This is an example of what we were saying about some nothings arising from historical reasons. There's a very old convention that expenditure is divided into two types: capital and revenue. Revenue expenditure is the sort which only provides an immediate benefit, and not a lasting benefit. Capital expenditure is the converse.

Examples of capital expenditure are legal fees to do with buying a fixed asset like a property, building extensions on to properties and working on changing the capital structure of the business, for example issuing new shares or merging and demerging companies.

What normally happens is that the person working out the taxable profit of the business simply adds back these capital expenses, and you pay tax on the increased notional 'profit'. Very often, the fact that capital expenditure is allowable against future capital gains is forgotten, because there's no immediate tax charge that that expenditure affects.

This is an unfortunate weakness in the way most businesses account for capital expenditure. If, for example, you've incurred a lot of legal costs in defending your title to a property, or a piece of land, those costs should be noted down permanently for offset against any capital gain when you sell the property.

Similarly, legal costs with capital structures, shares, etc., of the business should be allowable if you ever come to sell the business. But it's so easy to forget this, and simply add back the expenditure at the time it's incurred, and then forget about it.

On the personal level, nothing is more frequently found in practice than the person who has improved a property, for example by building on an extension, but hasn't kept any very detailed records of the improvement expenditure. So, they end up losing out by not being able to claim all of the improvement expenditure against the ultimate gain on sale, that they should by rights be due. Every pound, and every voucher recording the expenditure of a pound, should be a prisoner!

4. Private expenditure

It's not exactly rocket science to accept that expenditure on private living isn't allowed to be deducted against the profits of a business or employment. But very often money taken out of a business, or salary received, actually does get laid out as an allowable business type expenditure.

For example, you might click 'print' on your home computer and get a message that the printer has run out of ink. You get in your car and drive to the nearest PC World, and buy another cartridge (because, if you're like us, every printing job is urgent). Because it's your home computer, it may not occur to you that some of the printing you do will relate to your office work, in a large number of cases. So, you should really be claiming a proportion of that cost against your taxable income. If you do any work at home at all, in fact, you should be looking to claim a deduction, including for home, heat and light, repairs and insurance. For those whose work is done to a substantial extent at home, or even based at home, the amounts you can claim can be very substantial. And so often, because the recording of the amounts is so fiddly, this ability to claim expenses gets forgotten.

Feature: The Residence Nil Rate Band – Valuable New Benefit Or Merely A Shuffling Of The Cards?

The Conservative Party's 2010 election manifesto clearly set out the intention to raise the nil rate band (NRB) for IHT to £1 million, although their efforts were thwarted by the Liberal Democrats while in coalition government with them.

David Cameron then applied a pincer movement to fulfil his party's promise, when prior to the 2015 election he revealed plans to introduce an additional 'residence nil rate band' (RNRB) of £175,000 which would be added to the standard NRB of £375,000 when a main residence was transferred to a direct descendant of the deceased (including stepchildren and adopted children). The proposals, and subsequent legislation, also made it possible for some trusts for qualifying beneficiaries to be included but care needs to be taken with trusts written into wills, as not all trusts will qualify, specifically discretionary ones.

The proposals were included in the 2015 summer Finance Bill and the House of Commons then amended the legislation such that RNRB gifts made to the spouses and civil partners of direct descendants would also be included. The legislation affects second deaths occurring on or after 6th April 2017, regardless of the date on which the first death occurred.

The Finance Act 2016 then added additional legislation to provide that an 'additional' RNRB would be available to the estate where the sale or downsizing of the main residence occurred after 8th April 2015, *provided* that assets of equivalent value to the lost RNRB (plus the value of the lower-value main residence) are left to qualifying persons (i.e. those fulfilling the extended definition of direct descendants).

Note also that the property must have been used as a main residence ('qualifying residential interest', or QRI), so buy-to-let properties do not apply, although a property once lived in by the deceased and then subsequently rented out would. The RNRB starts at £100,000 in 2017/18 and will rise by £25,000 each year until it reaches £175,000 in 2020/21 (the intention thereafter is for the threshold to increase in line with the change in the Consumer Price Index each year).

Let's consider a simple example first

John dies in July 2020 (by when the RNRB will have increased to £175,000), leaving an estate valued at £800,000, which includes a property valued at £300,000. He leaves 50% of this to his long-term partner, April, and the other 50% he leaves in equal shares to his three children from his first marriage.

John's estate will benefit from an RNRB of only £150,000 (rather than the maximum available of £175,000) as that is the value which has been left to direct descendants (his children). His estate would also of course benefit from the standard NRB of £325,000.

Transferring the RNRB between spouses/civil partners

If the RNRB is not used on first death then it will be available on second death. Since the RNRB is transferable between spouses/civil partners, just like the standard NRB, from 6th April 2020 a married couple could share £350,000 worth of RNRB as well as a combined NRB of £650,000 (2 × £325,000). Bingo! There's your promised £1 million IHT threshold.

If the NRB is not used on first death then again, as with the standard NRB, it can be carried forward to the second death, and as long as that second death occurs after 6th April 2017 it does not matter how long ago the first death occurred. In those circumstances, the RNRB available at first death is deemed to have been the starting level of £100,000 and the first to die is deemed to have used no part of it, regardless of what actually happened. As a result, the starting point for calculating the RNRB on second death (see the effect of tapering below) will be to apply an uplift of 100% to the RNRB at the time of second death. Furthermore, the first to die does not even have to have owned a QRI at the time of their death.

The amount available to be 'carried forward' must be calculated in percentage terms and applied as an uplift to the RNRB on second death.

Let's look at another example

Henry died prior to 6th April 2017 and left his entire estate to his wife, Sally. Sally subsequently dies in November 2018, by which time the RNRB has risen to £125,000. Her estate will therefore benefit from a 100% uplift and therefore a RNRB of £250,000; provided she leaves a QRI of

at least that value to direct descendants, her executors will be able to claim the full amount. Sally also qualifies for the increased NRB of £650,000.

Even if Henry had left a QRI to direct descendants on his death rather than to Sally, Sally's estate still qualifies for the full uplift (although Henry would then have used part of his standard NRB and therefore Sally would only receive the unused portion).

Where first death occurs after 6th April 2017, what actually happened at that time will determine the position on second death.

Will I qualify?

So far, so good. But, of course, it's not that simple. You could be 'too wealthy' to benefit.

The amount of the RNRB is reduced by £1 for every £2 by which the deceased's 'net estate' exceeds the threshold level of £2 million. 'Net estate' means everything left after deducting liabilities, such as loans, but before deducting any exemptions or reliefs, such as business or agricultural property relief. This means many business owners and farmers will be precluded from benefiting from the RNRB altogether. Amounts left to charity (which would be exempt from IHT) are also disregarded for the purposes of calculating the estate value for the purposes of applying the taper.

Tapering will apply to reduce any 'carried forward' RNRB on first death where the estate of the first to die exceeds £2 million.

In practical terms, this means that from 6th April 2020 married couples with a joint estate exceeding £2.7 million (£2.35 million for a single person) will receive no benefit from the RNRB.

Let's look at a further example

Audrey inherited her late husband's entire estate (valued at £1.5 million when he died in 2016). On her death in January 2022, the value of her estate has risen to £2.5m, of which her main residence represents £1.6 million. Ordinarily, the position would be that Audrey's estate benefits from two standard NRBs of £325,000 (i.e. £650,000) and her estate benefits from two RNRBs of £175,000 (i.e. £350,000).

However, as the value of the estate on Audrey's death exceeds the £2 million threshold by £500,000, the RNRB is reduced by £250,000 (£1 for every £2 by which the estate exceeds £2 million). So, even though her husband's estate was below the £2 million threshold and he did not use any of the RNRB, the value of his RNRB is lost, as is Audrey's.

The standard NRB is not affected; therefore, the total amount exempt from IHT is £750,000.

What action can I take to maximise the RNRB?

A number of steps could be taken to preserve the benefits of the RNRB, or at least limit its reduction. As with all matters such as this, you should seek professional advice before taking any action.

- Give away surplus income to avoid increasing the value of the estate.
- Make lifetime gifts (potentially exempt transfers or chargeable lifetime transfers within the NRB) of assets other than QRIs.
- For married couples/civil partners, leave a share in the QRI to children on first death to ensure that both available RNRBs are used and leave other assets up to the value of the standard NRB to a discretionary trust on first death to reduce the amount passing to the surviving spouse/partner.
- Review your will: if property which would qualify as a QRI is currently left to a discretionary trust it will not benefit from the RNRB (this could potentially mean losing the benefit of both RNRBs if on first death the surviving spouse inherits absolutely and on second death the estate passes to a discretionary trust). This can currently be rectified by the trustees making an absolute appointment within two years of death using a deed of variation but it is never a good idea to rely on existing legislation still being in force when needed in the future.
- If some or all of your home is already in a trust, you should seek advice as soon as possible, as action may need to be taken during your lifetime in order to secure the RNRB.
- Inclusion of an age contingency with a gift means the gift is not absolute and therefore (if the age is over 25) a gift of a QRI cannot benefit from the RNRB. Consider either restructuring the gift or provide a right to income from the date of death, even if the capital is withheld until a later date.
- If a death has already occurred, it would be advisable to take advice as soon as possible, as there is a two-year window from date of death which could provide an opportunity to take action that might enable the estate to benefit from the RNRB.
- Finally, while deathbed planning is never the ideal option, it is worth bearing in mind that for RNRB purposes the value of an estate is the value on date of death regardless of any prior gifts, even if those gifts are made only a short time – even a few weeks – before death. This provides the opportunity for gifting assets which benefit from business or agricultural property relief and as a result qualify for the full RNRB. Once the full exemption is in place, this could save £70,000 in IHT.

Conclusion

This article only touches on the subject – additional detailed guidance can be found on HMRC's website (https://www.gov.uk/guidance/inheritance-tax-residence-nil-rate-band) and as with any legislation the rules are complex, but significant opportunities exist in the right circumstances to legitimately reduce the tax payable on a deceased's estate.

The government has stated that it estimates this new legislation will result in only just over 6% of total deaths resulting in an IHT liability, compared to some 10% without these changes. However, land registry figures document that almost 10,000 properties were sold for in excess of £1 million in 2013/14 – an amount which represents an increase of 270% in the number of property sales above £1 million over the period 2003 to 2013. Property remains the main reason why many people have an IHT liability and this looks unlikely to change in the future. The need for planning will, therefore, continue.

Carolyn Gowen is a Chartered Wealth Manager and Certified Financial Planner at award-winning City-based wealth management firm Bloomsbury. She has been advising successful individuals and their families on wealth management strategies for over 25 years. Carolyn can be contacted on email at truewealth@bloomsburywealth.co.uk or by calling 020 7965 448

CGT Alchemy

Worried about the CGT you'll have to pay when you sell a residential investment property? Try CGT alchemy!

What the alchemists tried to do, in the Middle Ages, was turn base metals, like iron and lead, into gold. Unsurprisingly, they never achieved this, even though modern science has taught us that it is in fact possible to change an element into a different element, under laboratory conditions. The only problem is, it costs far more to do this than the resultant gold would be worth!

By contrast, CGT alchemy is perfectly practicable and need not be costly at all. It just depends on the circumstances whether it will be possible or not, so, to allow you to judge for yourselves, let's set out the sort of situation where CGT alchemy is possible. Cecily bought a London flat two or three years ago, with the aim of using it as a pied-à-terre when she was in town. Much to the surprise of the property market (which never seems to anticipate these things in valuing property), a station on the new Crossrail line opens very close by. The property, which is nice and central, suddenly leaps in value.

Unfortunately, owing to family circumstances, Cecily finds that she's using the London pad very infrequently in practice. So she decides to let it out.

As time goes by, she gets increasingly concerned about the tax bill she is racking up if the property is ever sold. As part of the government's inveterate campaign against buy-to-let landlords and second-home owners, the CGT rate on selling such a residential property will be 28%, versus the 20% or lower rates that apply to other sorts of asset.

A simplistic attitude to this sort of tax problem would be to say: "That's tough. She's going to make a huge gain, so why shouldn't she pay tax on it?"

The reality is, of course, that what HMRC will be taking 28% of is not a growth in value of the property in real terms but simply property price inflation. If, as is often the case, Cecily were looking to buy another residential property to replace the London flat on its sale, she would literally be having to move down market with the money she has left after tax. Speaking about her concerns to a friend, she is referred to a tax adviser, Will Coyote. He advises her to bring the current six-month assured short hold tenancy to an end as soon as possible, and put the property on the market instead as furnished holiday accommodation (FHL). Because of the location of the flat, there's no problem finding holidaymakers, and fulfilling the technical tax requirements for FHL, which are that the property is available for holiday letting for at least 210 days a year, is actually so let for at least 105 days a year and none of the lettings are more than 30 days in length.

As a result, when Cecily comes to sell the flat, some years later, she finds that CGT 'rollover relief' is available, so that she has to pay much less tax on the gain. Instead, she reinvests the proceeds in another holiday let, or perhaps a number of holiday lets, in a cheaper part of the country and thus manages to beat property price inflation. CGT alchemy.

Potentially even more interesting, under current rules you only need one year's use of a property as an FHL, in this way, to qualify the whole gain for entrepreneurs' relief. Magically, the tax rate therefore drops from 28 to 10%, and this applies even if the property hasn't been FHL for the whole of its period of ownership, or even a majority of its period of ownership.

It's important, and interesting, to note that all you need to do is satisfy the very specific criteria for the property to qualify as FHL in order to get the benefit of this very substantial relief. This derives from the fact that, for CGT purposes, running furnished holiday accommodation is treated as if it were a trade, hence why trading reliefs like rollover relief and entrepreneurs' relief apply when you sell a property which has this status.

Money

News

Mortgages are getting longer

Countrywide, the estate agency chain, has published research that indicates a third of mortgages taken out this year will not be repaid until after the borrower turns 65. This represents a long-term trend as the share of mortgages extending beyond the current men's state pension age of 65 has gone up in eight out of the past ten years. Traditionally, the standard mortgage repayment term has been 25 years. However, Nationwide, Halifax and Leeds Building Society are among lenders who now set their maximum term length at 40 years.

This general trend can be explained in part by affordability. As house prices have risen, lengthening the term allows borrowers to reduce their monthly mortgage repayments to an affordable level. The fact that many people are working for longer has also influenced lenders' decisions.

Meanwhile, the Financial Conduct Authority has urged lenders to be more innovative about how they server older borrowers. Last year, Nationwide extended the maximum age of mortgage maturity – when the loan must be paid off – from 75 to 85. Halifax raised its maturity limit to 80. Building societies such as the Family Building Society are already offering more flexible loans into retirement.

Not all tracker funds are equal

Morning Star has warned investors that not all tracker funds are equal. The market leaders now charge retail investors just 0.06% for FTSE 100 exposure and 0.07% for FTSE all share exposure. However, many other fund managers are charging up to and even more than 1%. The more expensive FTSE all-share tracking funds include those offered by Janus Henderson, Virgin Money, Halifax, Columbia Threadneedle and Aviva Investors. More expensive FTSE 100 funds are being offered by Santander, Halifax, Scottish Widows, Legal & General and Janus Henderson.

If you are looking for the least-expensive FTSE 100 tracker then you should probably consider Vanguard and if you are looking to invest in a FTSE all-share tracker then you could consider HSBC.

The 'right to repair' movement

Nowadays, it is so cheap to buy replacement products when something breaks that it is usually uneconomic to get it repaired. As a result, the skills required to 'make do and mend' have been lost. However, something calling itself the 'the right to repair movement' may change all that. A London-based social enterprise, called the Restart Project, has begun to host parties around the world at which people can bring products that need repairing. Volunteer fixers are happy to show consumers how to mend printers, laptops, fans, vintage record players and other gadgets. About half of the objects being brought cannot be successfully repaired but, on the other hand, half can. Other tips can be found on YouTube and an American website called www.ifixit.org. The days of built-in obsolesce may be coming to an end.

Aiming for tax relief

This month marks the fourth anniversary of the rule change which allowed AIM-listed shares to be held within a stocks and

shares ISA. Buy the correct sort of AIM shares, and you can enjoy tax-free growth and dividends within the ISA wrapper while you are alive and (providing you satisfy a two-year rule) pass them on free of inheritance tax (IHT) when you die. Moreover, now that the annual ISA limit has been increased to £20,000, over a period of time it is possible to build up a very substantial lump sum by this means. Of course, the investment performance of smaller companies, such as those listed on the AIM can be very volatile. On the other hand, over the last three years the top 100 AIM companies have increased in value by 52% (up 37% in the last year). Of course, this masks the fact that many less successful AIM companies have plummeted in value. Nevertheless, it is a promising sign.

Annuities down again

Annuity rates have fallen by 10% over the last two years. The latest statistics show that a 65-year-old male with a £100,000 pension pot can secure, at best, a single life, level annuity income of just £4,894 a year. Two years ago, the same pension fund would have attracted an annuity of £5,292. As fewer people decide to purchase annuities, so rates become less competitive. This is partly because some pension providers are exiting the market and thereby reducing competition and partly because the fewer policy holders each company has the higher the risk for them.

It is vital, if you decide you are going to purchase an annuity, to shop around. Many experts now feel that annuity rates are unlikely to rise for some time so you may also decide, even though rates are not great, to lock in now while you can.

Consider a telematics insurance policy

Upset about the cost of your motor insurance? Consider a telematics insurance policy. Under such a policy, your insurer will install a small black box under the bonnet of your car and the box will measure how well you drive. The better you drive, the lower the cost of the insurance. The box will collect data on the position of the vehicle, the speed and driver behaviour, such as acceleration and braking. Because the insurance company knows that once the box is installed you are more likely to drive safely, premiums are substantially reduced on such policies. At the moment, there are some 40 telematics-based insurance propositions in the UK market and you should be able to find them on the normal price comparison sites. They are particularly beneficial to young people. For example, a 19-year-old could pay as much as £4,800 without a telematics box, but with telematics that could fall to £1,600. Telematics can also help, incidentally, to save lives. This is because the sensors can detect crashes and the severity of those crashes. One example, a young man who had been playing computer games at a friend's house fell asleep at the wheel. The car overturned and ended up in a ditch next to the road stop. Using the telematics data, the police were sent to the scene – they said that the car was invisible from the road and they would have missed it if it wasn't for the black box.

Should you consider an LPA?

Lasting powers of attorney (LPAs) are legal documents that allow someone to look after your financial affairs if you are no longer in a position to do so. Signing an LPA has become increasingly popular, and it is believed that there may be over 2.5 million of them currently registered in just England and Wales alone.

How do LPAs work? There are two different varieties. One covers health and welfare and the other covers one's financial affairs. The first can be used to appoint people to make decisions on, for example, where you should live, day-to-day care and whether to give or refuse consent to medical treatment. The latter can be used to appoint someone to make financial decisions, including the buying and selling of your property, dealing with your tax affairs and claiming benefits, on your behalf.

In order for an LPA to be legally binding you need to use standard forms that are available from the Office of the Public Guardian (visit gov.uk). You may wish to take legal advice, as whatever you sign is completely binding. Having completed the form or forms, you need to register the document with the Office of the Public Guardian, which will cost you £82. Obviously, you need to choose the person who is going to represent you (called your attorney) with considerable care!

Alternative Investment Opportunities

Coutts, the private bank, has released a report on the subject of alternative investment. It says everything about how popular this asset class has become that several national newspapers have recently given it extensive coverage. The *Guardian*, for example, ran a headline: "Value of classic cars and fine art plunges as photographs soar". The key points made by Coutts are:

- The fall in the value of classic cars – down in price by 10.4% last year – comes after years of booming demand.
- Fine art has fallen out of favour, with prices down by 6.2% last year. Modern and impressionist art is selling for 12% below the 2007 peak, while Old Masters and 19th-century art are fetching 40% less at auctions than before the financial crisis.
- Collectors have also lost interest in rugs and carpets, with 2016 prices at an eleven-year low.
- Rare musical instruments topped the table for price increases among collectibles in 2016. They rose in value by 16.4%. However, Coutts said that prices were highly volatile.
- Photography was probably the hottest new investment area among collectibles. A 1990 photograph by Thomas Struth sold for £600,890 last year.
- The return on what Coutts refers to as "billionaire property" was only 1.8% in 2016. Property price falls in London were blamed on stamp duty and Brexit. The taxes seem to have affected property prices in Paris, which have declined by over 30% since 2012.
- Average prices for wine rose nearly 10% in 2016 but remained 20% below their 2011 peak.
- Classic watches rose by 6.7% in 2016 but are still 10% lower than in 2012.

In this column we regularly cover a wide range of alternative investments from renewable energy to peer-to-peer lending and from stamps to coloured gemstones. Elsewhere in this magazine, we cover, at considerable length, property. But there is an alternative asset group that we neglect. And, perhaps, it is one that deserves far greater attention. Indeed, the *Washington*

Post recently suggested that as an asset class it could soon become a replacement for property. If you know what you are doing, it is low to medium risk, offers a regular income and comes with all sorts of tax benefits not least the fact that you can transfer it to family members during your lifetime with minimal tax implications, can sell it for just 10% capital gains tax and pass it to beneficiaries (in most instances) free of IHT.

I am referring to small businesses. I am not talking about backing a business start-up as an angel or founding your own company. I am talking about purchasing an existing, proven business and putting in managers to run it for you. *Fast Company*, an American magazine, pointed out last year that: "Droves of baby boomer business owners are starting to retire, and looking to hand off their life's work. That spells opportunity." The magazine went on to point out that real money can be made from what it called the "silver tsunami" of businesses about to be put up for sale by their middle-aged owners. Over the next 20 years, retiring business owners will sell or bequeath $10 trillion worth of assets, held in more than 12 million privately owned businesses, according to the California association of business brokers. More than 70% of those businesses will likely change hands, offering major opportunities for investors. *Fast Company* went on to warn that, while buying a decades-old widget factory or neighbourhood bar may not be as sexy as building the next software empire, existing businesses can be real money makers, giving new owners a chance to move in on a proven concept and an already established client base.

Incidentally, it is a common misconception that if a founder decides to sell a business there must be something wrong with it. The suspicion is that it is about to go under, the financials are in bad shape or the founders must know something you don't. In reality, founders sell their businesses for myriad reasons. They may be at a different life stage, and the needs of the business no longer match their lifestyle. Or maybe they have grown bored with the existing business model, or they are excited about a new idea. The business they started may be a great one, just not one they are passionate about running day to day any more.

Perhaps the first thing you need to do if you are considering investing in an existing business is to decide what it is you are looking for. Frankly, you can't do enough planning and research. You should have a clear idea about what size of business you want to acquire, what sort of industry you are interested in being involved with and the amount of time you are willing to give to managing it. As the owner of a business the buck will stop with you. However, it is certainly possible to buy a business with existing management in place and where you need have almost no day-to-day contact. As part of your research and planning you ought to look at a range of businesses to get a feel for what is available. This is a sector where there are plenty of matchmakers. Online business marketplaces and in-person auctions are good places to begin, but often the best leads will come from contacts within an industry, business brokers and advisers. Don't forget to include lawyers and accountants in that group, especially those who work primarily in the industry in which you are interested.

Speaking of advisers, it is vital to do your due diligence. Thoroughly review all the business records to look for pending litigation, tax audits or insurance disputes. Follow the paper trail as far as it goes. Money spent on getting a third party to do your due diligence is money well spent. Incidentally, before you make a purchase, I would also recommend getting to know both potential customers and competitors. Have an idea, before you sign the cheque, as to how you are going to add value and even what you will do in the first three months after you purchase it. One of the big advantages of buying an existing business, incidentally, is not just that it is proven. It is that you will be able, should you require it, to borrow money in order to help fund the purchase. This can help reduce your risk and has another significant benefit, namely if a bank is willing to lend for the purchase you can be certain that it, too, thinks that it is a good idea.

Property Notes

WeWork is definitely working

The American shared officer provider WeWork is continuing to take the UK by storm. It purchased its first UK property in 2014 and since then has attracted 15,000 members occupying 1.7 million square feet of London offices. To put this into some sort of perspective this is like three Gherkin skyscrapers. What seems to make WeWork so attractive to its tenants is the fact it offers an all-inclusive version of the serviced office model, which it styles as a community of co-workers, with a global app, funky decor, social areas with beer on tap and member events. Its business model is to take out long leases on property, which it then offers to its tenants on short leases. This formula has proved less than successful for previous serviced offices groups.

There are a number of competitors to WeWork including Spaces, Office Group, Carlyle and Work Space. However, WeWork does seem to adopt a more aggressive (and more successful) approach. For example, it is currently offering between six and 12 months free to those occupying shared desk spaces.

The IHT holy grail

When it comes to IHT, the holy grail is being able to claim business property relief (BPR), which may reduce the tax on the relevant parts of the estate by up to 100%. However, as every buy-to-let landlord knows, rental properties are not eligible. This is because HMRC views property as a passive investment and not as an active business. Basically, a business that is wholly or mainly involved in making or holding investments is not eligible for BPR.

But wait a moment. The term 'wholly or mainly' offers some opportunities. If a business qualifies as 51% trading and 49% investment then BPR may be applied. So if, for example, you have a family business that also happens to own some investment properties it may be possible to apply BPR, after all.

To quote one expert: "If the trading company was engaged in secondary rental property business activities, it may be possible for BPR to be available in respect of its shares, without restriction. HMRC accepts that a hybrid company (i.e. trading and managing investments) that is mainly trading will not be subject to the accepted assets rule in respect of assets used in the investment element of the business (e.g. rental properties)."

The key point is that with proper planning it is possible for buy-to-let properties to be passed to heirs without suffering IHT.

Principal private residence relief case histories

Principal private residence relief (TCGA 1992, s 222 et seq.) is what allows you to buy and sell your own home tax-free no matter how large the gain you make. It does not, however, always go unchallenged by HMRC. In particular, if you spend a short period of time living in a property – particularly if they see a pattern of you moving from property to property and making a gain each time – you are likely to be challenged on the grounds that the property or properties concerned were not really your principal private residence.

This leads on to the question "How long does one have to live in a property before one can claim the relief?"

In *Dutton-Forshaw* vs *HMRC (2015)* the courts decided that just 52 days of occupation was all that was required in order to make a London flat the taxpayer's main residence. Why? The taxpayer concerned separated from his wife and decided that he would move to London, where he acquired a flat. During that time, he applied for a parking permit, joined a local dating agency and attended his local church. His wife, meanwhile, was still living back in the family home in Limington. However, she announced if he did not move back to Limington she would move with their daughter to Spain. So the taxpayer went back to Limington and at a subsequent date decided to sell his London home. The courts, taking into account everything he had done during those 52 days, decided that he had, indeed, intended to make it his permanent residence and allowed the tax relief.

And this leads us to a very important point: it isn't so much how long you actually live in the property but how long you *intend* to live in the property that is likely to help you win a case. If there is plenty of evidence that you have moved somewhere with the intention of staying then the courts are almost certain to find in your favour.

Stamp Duty Land Tax: The Exception That Proves The Rule

The general rule, which is reasonably well known, is that there's no tax where you transfer assets between spouses (or, nowadays, civil partners as well). So, let's say a husband who pays income tax at a high rate wants to transfer an investment property, or portfolio of investment properties, to his wife so that the rents will bear a lower rate of income tax. This is perfectly permissible planning; indeed, it is almost explicitly approved in the income tax law. Furthermore, it doesn't matter if there is a large capital gain inherent in the property or portfolio, because of its having gone up in value substantially since he bought it. Any transfer of assets between spouses or civil partners living together is treated for capital gains tax (CGT) purposes as if it were at a value which gives neither a gain nor a loss.

The fly in the ointment is stamp duty land tax (SDLT). If the property portfolio has any mortgages or loans secured against it, transferring it over to another person effectively means that person taking on the liability to pay off the loan. This is treated as the transferee giving 'consideration' for the transfer. SDLT is then calculated and payable on the basis that it is a 'sale' of the property in return for the amount of the mortgage.

We've given the example of a husband-and-wife transfer, but of course the same principle applies to any gift of a property, on which there is a loan secured, where the recipient of the gift becomes liable to pay the mortgage. So in other cases where CGT itself isn't a problem (e.g. because the property hasn't increased significantly in value) the SDLT effects can make the transfer nevertheless a very expensive exercise.

The answer to this SDLT problem, where the transferor and transferee(s) are closely related, may be to set up a family investment limited-liability partnership (LLP).

To go back to our husband-and-wife example, let's say that, instead of transferring the property portfolio over to his wife, the husband introduces it into an LLP in which he and his wife are members. Again, there's no CGT on this introduction, because the share of the property that he is treated as transferring over to her is being transferred by way of inter-spouse transaction, that is at no gain, no loss.

Importantly for our present purposes, from the SDLT point of view the normal rules for deciding what the taxable 'consideration' is on a property transaction fly out of the window. These are replaced by a specific set of rules which decide what the value of the transaction is where a property is introduced into a partnership.

The actual rules are set out in a mixture of Greek and Chinese, but, distilled down to their essence, they maintain that SDLT is payable, when you put property into a partnership, on a proportion of that property which corresponds to the interest an unconnected partner in the partnership or LLP is thereby acquiring. To take a simple example, assume A, B and C are partners in a partnership, and are not related to each other. If A introduces a property to the partnership worth £600,000 and A, B and C are equal partners, this is treated as an SDLT-able transaction of two-thirds of the value of the property, that is £400,000, and SDLT becomes payable as if partners B and C had bought this interest in the property from A for this value.

But the position is crucially different where the partners are actually connected. The newly acquired interest of the related person is treated as if it was still owned by the introducing partner for these purposes, and so no SDLT falls due. Putting it technically, in our husband-and-wife LLP example, the 'chargeable consideration' is nil – and this applies regardless of whether or not there is a mortgage on the property.

The principle also applies to the family investment LLP where it isn't just spouses or civil partners who are the LLP members. If you have a nuclear family of husband, wife and children as members, these are all related within the definition and so the portfolio can go into the LLP without SDLT. Moreover, it's possible to set up such an LLP (with all its attendant income tax, and potentially IHT advantages) without incurring CGT even if the properties have gone up in value, and even if the members of the LLP include individuals who are not spouses. But that probably needs an article all to itself…

VAT Conversion

Tea, coffee, spirits, laces, silks and spice
And sundry drugs that bear a noble price,
Are bought for little, but, ere sold, the things
Are deeply charged for duty of the King's.

When George Crabbe wrote these words more or less 200 years ago, 'sales tax' was a relatively simple affair compared to the convoluted and labyrinthine VAT rules of today. Crabbe, for example, never had to wrestle with the various VAT issues associated with the conversion of a property, especially when of a residential dwelling. In this article, we look at this complicated subject and, hopefully, help those involved in or contemplating such conversion work to avoid unnecessary taxation.

The first point to make is that the VAT reliefs for house builders that create brand-new homes and developers that convert existing commercial properties to create additional dwellings are, basically, the same. The difference arises in relation to something that is referred to as 'opted' properties, something called the VAT 1614D procedure, the Capital Goods Scheme (CGS) as it relates to the vendor and the interaction of all the above with the potential

use of a zero rate.

In fact, the zero rate of tax applies to sales of non-residential conversions and this can be a considerable advantage to both vendors and purchasers of 'opted' commercial properties. Managing to avoid VAT on a conversion can be the difference between profit and loss.

Before launching into the detail, perhaps it is worth reminding ourselves of the core principles involved in VAT. Essentially, it is a tax on the sale or supply of goods and services and covers everything from the freehold sale of a new house (this would be considered goods) to the rent one receives from a short-term residential let (this is considered services). Goods and services are either taxable or exempt. When VAT is charged on a sale, it is referred to as 'output tax' and when it is charged on some sort of expenditure or cost it is referred to as 'input tax'. Where it gets confusing is the fact that VAT can be applied at three different levels: the standard rate of 20%, the reduced rate of 5% or the zero rate. So in instances where VAT does not have to be paid it may be because it is charged at 0% or because it is completely exempt from VAT in the first place. Businesses and individuals who are registered for VAT may claim VAT on goods and services used to make taxable sales. However, under normal circumstances someone who is registered for VAT may not claim VAT back on goods and services used to make exempt sales. These latter sales are referred to as 'exempt input tax'.

Remember, if you are involved in selling goods or services whether VAT is zero rated or exempted may make a considerable difference to you. If something is exempt, you are not going to be able to reclaim VAT, whereas if it is zero-rated you are.

The VAT 1614D procedure allows buyers and sellers to decide whether to sell land, a building or some other property as a taxable supply or to make it VAT exempt.

So much for the ground rules.

As if these were not complicated enough it is also crucial to remember that when VAT was introduced in 1973 the sale and construction of new houses was zero rated, while sales of existing dwellings and normal residential leases were VAT exempt. The zero rate also covered most construction work on private homes, including repairs, maintenance, alterations, extensions and conversions, so there was no additional VAT cost on most conversions and renovations. This means that if you build a new house you can normally claim VAT on most of your expenditure (on all the materials, for instance) and you will only suffer VAT on certain things such as white goods.

Anyway, since 1973, the original rules have changed and in particular VAT has been introduced at the standard rate on repairs, maintenance, alterations, extensions and conversions.

In 1995, the zero rate was extended to commercial properties that are converted into dwellings. This law is what allows the developers of such properties to claim input tax on the conversion work.

Moreover, a 0% reduced rate for contractor services on specific residential conversions and renovations was introduced. If you are planning to convert a non-residential property into a residential property, it is crucially important that you plan your VAT so as to be able to claim the zero or reduced 5% rate. Bear in mind that the 5% rate applies for conversions and renovations by VAT registered contractors and the zero rate applies to the sale of non-residential conversions by commercial developers. Incidentally, to take advantage of the reduced rate for conversion services, there must be a change in the number of single household dwellings after the conversion. To qualify for the zero rating as a sale, the conversion must be a non-residential conversion, which means the property must not have been lived in or used as a dwelling in the previous ten years.

The VAT 1614D procedure allows someone buying a property to purchase an opted commercial property VAT exempt, as long as they intend to use it as, or convert it to, a dwelling or dwellings or for other particular residential purposes. If a buyer issues the VAT 1614D certificate to the vendor before the price or the property is legally fixed, the vendor must exempt the sale.

To summarise, if you are planning to convert non-residential property to residential property by taking advantage of VAT 1614D, you will be able to reclaim most of your VATable expenditure, but you must put the paperwork in place before you make your purchase.

Transferring Buy-To-Let Property Tax-Free

Many owners of buy-to-let property would like to pass it to their children or other beneficiaries but are concerned about the amount of tax they may have to pay.

After all, all such transfers trigger a CGT charge (supposing that a profit has been made). For example, imagine you purchased a property ten years ago for £100,000 and now wish to give it to your adult son. If the property is currently worth £200,000, you will pay tax on the gain of £88,900.00 (£100,000 profit less £11,100 CGT annual exemption).

Depending on the type of property, one solution may be to turn the buy-to-let property into a bed and breakfast or short let holiday rental. If you can do this, you may be able to transfer the property as a business rather than as an investment. This would offer much greater opportunity for tax planning. Indeed, although incorporation is not always the best course of action for a buy-to-let investor seeking to avoid CGT and inheritance tax (IHT), it can offer some interesting possibilities. After all, the valuation of a limited company is a very different matter compared to the valuation of a specific property or portfolio of properties.

Trusts also have a role to play, especially where the property market value is less than the IHT nil rate band, which is currently £325,000. This is how you would use a trust:

- First of all you would appoint a Society of Trust and Estate Practitioners (STEP) consultant in order to establish a trust for you. You would then transfer the property into the trust. Although this would be chargeable to IHT, providing, as I say, the property market value was less than the IHT nil band rate, no IHT would be payable. (This does assume that your nil rate band has not already been used.)
- There is no IHT due on the transfer of the property into the trust and a holdover claim can be made under s 260 of the Taxation of Chargeable Gains Act 1992. This allows the transfer into a trust to occur without any CGT charge arising.
- After at least three months have elapsed, the beneficiary can receive absolute title to the property. This transfer is subject to IHT (it is referred to as an exit charge); however, no IHT would be payable, because the IHT charge would be based

on the initial principle charge rate of 0%. A second holdover claim can be made so that the adult child taking ownership of the property will have the same base price as the original donor. In plain English, if the property had been purchased for £100,000 the base price would still be £100,000.

Another possibility is to consider selling rather than giving any property. Providing that, should they ask, you can show HMRC evidence that you sold the properties on an arm's-length basis, they are unlikely to query the sale. How does selling the property bring you any advantage? It is important, of course, to ensure that the sale price represents the property's true value. This can be done by engaging the services of a professional valuer.

Lower Turnover May Mean Lower Prices

There are plenty of reasons why the British residential property market may experience a fairly dramatic correction. First and foremost, the median house price in England is currently nearly eight times the median annual earnings, which many believe is the highest ratio ever recorded. Then there is the economic uncertainty surrounding Brexit, increased stamp duty for more expensive properties and the various pieces of legislation designed to reduce the attractiveness of buy to let as an investment.

However, it may be that the serious threat to British property prices has nothing to do with market conditions. Over the last twenty years, the British have become much less inclined to move home. This fact may seem insignificant when compared to the high cost of housing. But the fact is that it leaves British homeowners much worse off. Why? To understand the cause, one needs to go back to the 1980s, when housing turnover was at an all-time high. This was, to a large extent, a result of Margaret Thatcher's decision to sell tenants their council homes and also because so much credit was available from banks and building societies. Back then, it was easy to take out a large home loan and to move up the housing ladder. Since then, much has changed. For starters, the country is experiencing a long-term decline in housing construction. We also have an ageing population, which means a less mobile one. It shouldn't be forgotten that the way council tax is charged means that pensioners have less incentive to downsize. Over the last 40 years or so, the number of households with one occupant has risen from a fifth to more or less a third. Singletons are clearly much less likely to want a larger property.

All of this might not matter so much if it weren't for the fact that for most people in Britain living standards have been falling. And, the thing is, if you have less disposable income you clearly can't afford to move up the housing ladder. Indeed, in the current climate a typical home will only change hands once every 25 years. It isn't getting any better, either. The growth rate of real household disposable income has fallen from about 3% a year to 1%. And things have got worse since Britain decided to leave the EU. The country is suffering from higher inflation and lower levels of savings. Moreover, it is hard to move if one can't borrow the money. Interest-only mortgages are a thing of the past and there are strict limits on high loan-to-income mortgages, too.

What does all of this add up to in real terms? Well, of course, if people find it difficult to buy and sell their home it makes it much harder for them to move to a better job or a more productive part of the country. Interestingly, workers are spending much longer commuting, which, in turn, hits productivity.

Anyway, there is very little evidence that the number of housing transactions is going to go up at any point in the near future. This, in turn, is likely to push prices down even further.

Landlords Look North

Up until around the middle of 2016, London was, far and away, the most popular city in the UK for landlord investment. Indeed, there were nearly three times as many buy-to-let mortgages in London than there were in Manchester. Of course, this in part is a reflection of its larger population and rental market. Also, of course, until last year London seemed to offer better yields and greater long-term security.

Interestingly, since the beginning of 2017, things have changed fairly dramatically. In London, the amount of landlord investment has more or less halved. This, in part, can be attributed to the stamp duty changes that did so much to dissuade buy-to-let landlords.

However, the same stamp duty changes seem to have had almost no effect on Manchester landlords. They continue to invest at the same rate for 2014, 2015 and 2016. And, this year, investment in Manchester buy to let seems to be pulling ahead – in percentage terms – when compared to the capital city.

In part, this must be due to a change in average rents. The housing research consultant Home Track has estimated that London rents will fall, on average, by around 2% this year. Meanwhile, however, rental prices in Manchester are forecast to rise between 2 and 3%. The Midlands, incidentally, and the eastern regions, are expected to rise at around 5% a year.

Affordability also comes into the equation. It is much easier for an investor to purchase a buy to let in Manchester than it is London.

Are there any pitfalls to purchasing buy to let in Manchester? Local knowledge is vital. In particular, canny Manchester investors may see the growth in demand as an ideal opportunity to get rid of less desirable properties. It must also be remembered that when you are located some distance from your investment it is much harder to manage. Costs can quickly escalate if you are always being forced to rely on agents to manage your property.

Commercial Property Update

Ever since the Brexit vote, the UK commercial property market has been in a certain amount of disarray. As evidence, one only needs to look at how the listed real estate investment trusts (REITs) with large commercial property portfolios have reduced their debt levels and all but cancelled their development plans. Yet, although UK-listed REITs are worried, it has to be said that overseas investors can't get enough of British commercial property. This year two giant city skyscrapers have sold for astronomical sums. The Cheese Grater sold for a staggering £1.15 billion to a Chinese property developer – the price being almost

a quarter more than its previous September valuation. Then the Walkie Talkie was sold to a Hong Kong investor for an even larger sum – £1.3 billion – around 13% more than its book value.

It is certainly true that many large financial companies will exit London post Brexit and move to either New York or one of the other European capitals. However, at the same time a large number of companies have announced that they plan to invest in British headquarters, which is naturally going to push up commercial property prices. One example is Wells Fargo, but there are many others. It must also be remembered that the tech sector in London now needs more space than the financial sector. The weakness of the pound has also encouraged European firms to look to the UK as a possible location for their businesses. Incidentally, if you look at various British property REITs, you will notice that they are available at discounts of roughly a fifth or more on their net asset values and those net asset valuations may, in turn, be an understatement of the likely present sale value. In other words, investors can take advantage of a double discount.

Office space is one thing; retail space is another. In recent years many investors have been worried that the growth of e-commerce was going to put an end to the retail property market. This summer Savills published a report, *Retail Revolutions: From Digital to Physical*, which suggests that the growth of online retailing is actually beginning to slow and that some pure e-tailers are now transitioning into owning physical retail space. This is especially true within the fashion industry. Although products such as books, electronics and music are relatively easy to purchase online, many other consumer purchases are much harder. This is probably why even by the year 2022 Savills believes only 11.5% of health and beauty sales are likely to be online. Food, clothes, alcohol, furniture and dozens of other products do not lend themselves to online selling.

Interestingly, in the US there a number of pure play e-tailers that are bringing show-rooming and experience retailing together, such as Bonobos and MM La Fleur. Their shops are true showrooms, in that customers cannot walk out of the store with their purchases. Rather, the showroom ensures customers have the ability to try on every item in their size, advised by personal in-house stylists. However, the purchase takes place online (either instore or at home), which is then delivered to their selected address. This, in turn, is leading to another interesting development. A rising demand for warehouse space and distribution centres conveniently located for any business engaged in e-commerce.

Meanwhile, a study by estate agency Colliers has found that rents for the top tier of retail property rose by 1.8% in the last year, the biggest increase since 2008. But it also found that the proportion of all shops that have been empty for more than two years had risen by a fifth, to about one in 28. For the first time since 2012, the percentage of the country's top 420 shopping areas where rents are falling increased – from 5 to 12%.

The UK's regional office markets saw continued demand for the first half of 2017, with office take-up reaching 2.8 million square feet, only slightly lower than the five-year average. Some cities, including Aberdeen, Edinburgh, Leeds and Manchester, witnessed improved levels of take-up. Although investment volumes overall are down compared to 2016, investment interest in the larger regional cities has remained buoyant so far throughout 2017.

Five Overseas Property Opportunities

Sterling has, more or less, tanked. At the time of going to press its all-time high over the last ten years was €1.47 to the £1. Today it is heading for its all-time low of, more or less, one for one. Things are not so different for the dollar. At the time of going to press we haven't quite reached its all-time low of $1.20 to the £1. We are certainly a long way off its all-time high in the last ten years of $2.11. So you may be surprised to learn that many British investors are still buying overseas. Why? Jane Seymour of Knight Frank believes British investors are motivated by a number of factors: "Some buyers are looking for an overseas safety net in case they want to become expats at some date in the future. Some buyers have always followed a policy of diversification and don't allow currency fluctuations to interfere with this strategy. Some buyers are simply so wealthy that they don't really care about such variations." So, if you are a British buyer looking for a bargain overseas – and a secure bargain that's unlikely to be high risk going forward – then here are five interesting opportunities. Bear in mind, too, that sterling may not have finished its slide! If it falls further, you will see more of a gain. And on that gloomy note…

Look to the Ligurian

Liguria is the stretch of coast that runs north-east from France in the Mediterranean towards Genoa, which is in Piedmont, and then runs south-east towards Tuscany. It takes in such places as Ventimiglia, Genoa, Portofino, Camogli and Santa Margarita Ligure. It is a thin crescent of land backed by the Alps and the Apennines and it is renowned for its brightly coloured towns, many of which seem to be on the verge of falling into the sea. Shelley, as you probably remember from school, drowned in the Gulf of La Spezia and Byron owned a house in Genoa. Like the rest of Italy, Liguria is still well off its 2007 peak but whereas the rest of the country, allowing for inflation, is roughly 25% lower than it was pre-crisis, falls in Liguria have been less steep. Savills believes that it is around 15% off the top of the market. More interestingly, figures for the region show a 28% increase in sales between 2015 and 2016. There are all sorts of reasons to believe that prices in this area are likely to rise. There are major improvements to the rail network, including a new line between Genoa and Milan. There is a new marina being built close to the border with France. The fast track visa programme for overseas investors is bringing new tax residents to Italy. With many tourists worried about terrorism, these quiet areas are also bringing extra holidaymakers and second-home owners. Bargains abound. For example, you can buy a two-bedroom house in the historical centre of the medieval village of Diano Castello, a little over a mile from the sea with fantastic views, frescos, balconies and a marble staircase for just €395,000. Or, at the other end of the scale, you can spend €3.85 million on a six-bedroom villa with its own beach and mooring. Either way, the area offers some of the best property in Europe and it must be remembered it is considerably cheaper than buying across the border in France.

Sail into Kinsale

Kinsale was described only a few weeks ago by the *Financial Times* as "a playground of the international jet set". A number of tech companies, including Amazon and Apple, have large offices in Cork, just 20 minutes' drive away, adding to a base of wealthy

commuters in Kinsale. The picturesque coastal town is renowned for its food, golf and sailing. The Old Head on a rocky promontory is among the most famous golf courses in Europe.

House prices in the town have been rising at a rate of 15% a year for the last three or four years, buoyed by international cash buyers and a lack of supply. Moreover, rental returns can be attractive with roughly 5% a year for a one- to three-bedroom apartment. A three-bedroom Georgian townhouse is on sale in the centre of Kinsale at the moment for €750,000. A four-bedroom new-build house in the grounds of a former convent will be coming onto the market shortly at €600,000. Some people feel that Ireland is heading for another property bubble. However, Michael Noonan, the finance minister, has argued that the price acceleration is simply down to a growing economy and a shortage of supply in the country. Although Brexit will be bad news for Irish farmers and food businesses, it is expected to bring all sorts of benefits including the relocation of firms from the UK to the only other English-speaking country in Europe. Indeed, Cork is expected to treble in size over the next 15 years.

All roads lead to Rhodes

Rhodes is one of those islands that have changed hands many times; 3,500 years ago it was the Minoans, and then the Persians and then the Athenians. Alexander the Great took it, the Romans controlled it and for a while it was occupied by the Islamic forces of the Caliph Muawiyah. More recently the island passed from the Knights Hospitaller to the Italians, then the British and finally the Greeks. Greece, of course, has the most affordable homes in Europe according to a survey of 18 countries by the agent Remax, making it cheaper than both Romania and Lithuania. This is due to the fact that prices fell to about half their pre-banking crisis levels. However, Rhodes never suffered as much as mainland Greece. True, transactions fell dramatically but at the high end prices only fell by around 15% due to the limited supply of high-end properties. Since 2014, prices have remained stable and transactions have slowly been increasing. Indeed, in the last year transactions are up around 50%. Rhodes has always been popular with both German and British buyers, but more recently a golden visa granted to those investing at least €250,000 in Greek property has encouraged more diverse purchasers, from Russia, Lebanon and Turkey. Greek Australians and Americans are also increasingly investing in their ancestral home. If you want to buy a four-bedroom, 17th-century captain's house with a roof terrace and sea views you can expect to pay (there is one for sale at the moment) €1.95 million. On the other hand, you can still get a four-bedroom beachfront villa for as little as €600,000. There is an international airport with seasonal flights from European capitals and Athens is less than an hour away.

Consider Berlin

This is what one property investor has to say about Berlin: "Berlin's history of being a divided city creates great investment opportunities." Not only is there a distinct difference between West and East Berlin, but the price of property also lags. This means there are great opportunities for investors to buy into areas in the east, which are becoming gentrified as old buildings are brought back to life and new-builds help create new communities – areas like Friedrichshain or Stralauer Allee, a high-tech hub and hive of industry beside the Spree River. Other German cities, like Munich, are more expensive, so Berlin still represents really good value. It will also eventually get a boost when its new international airport at Brandenburg, south of the city, eventually opens in the next year or two after some delay.

What about capital gain? Since 2009, the city's population has risen by about 150,000 and forecasts of population growth of more than 250,000 over the next 15 years mean 100,000 houses needed to be built in 2015, but only 15,000 were built. In other words, demand is dramatically outstripping supply. Yields, incidentally, are likely to be between 3 and 5%. Purchasing costs, on the other hand, are high. If you are buying a €200,000 apartment, you need to allow up to €28,000 in additional costs. Finally, bear in mind that Berlin is the best city to launch a start up in Europe, owing to the low cost of doing business. There is a huge, young, talented demographic and a friendly ecosystem.

Beyond Santa Fe

Bob Dylan, Beirut, Bon Jovi, Alan Menken, the Bellamy Brothers, Van Morrison… Santa Fe has inspired well over a dozen well-known hit records. But if you drive around 70 miles north of the state capital, you will reach the ancient pueblo town of Taos. It is one of those strange little anomalies, Taos. The surrounding countryside – dusty, desert scrub with the Sangre de Christo Mountains looming in the distance – has inspired artists from Ansel Adams to Georgia O'Keeffe. It basks in the desert sun virtually all year long and was at the centre of the counter-culture movement of the 1960s. It has always been popular with second-home owners and retirees, but more recently it has also attracted entrepreneurs and workers who can operate from home. Property prices have been taking off with most of the sales activity coming from buyers in California, Texas and New York. They are drawn, doubtless, by the fact that the city receives more than 300 days of sunshine every year with only around 12 inches of rain. It is served by a local airport and is only a little over an hour away from Santa Fe Municipal International Airport. It is only 20 miles from the Taos ski valley, which averages 300 inches of snowfall every year. Anyway, property prices are still incredibly reasonable. For example, you can buy a modern, architect three-bedroom property with a walled courtyard, hot tub and roughly four acres of land close to a large national park for just $699,000.

The Schmidt Tax Report

Web: www. schmidtreport.co.uk Email: info@wentworth-publishing.co.uk

It is our intention to be as accurate in fact, detail, analysis and comment as possible. However, the publishers and their representatives cannot be held responsible for any error in detail, accuracy or judgement whatsoever. The Schmidt Tax Report is sold on this understanding. The STR is commissioned and published by Pink Consultants LLP, Unit 5, Hurricane Way, North Weald, Epping CM16 6AA © Wentworth Publishing Ltd 2017. All rights strictly reserved. This publication may not be lent, hired, reproduced (in any way whatsoever) or re-sold. This information is authorised for personal consumption only. Registered at The British Library - ISSN 2047-1785.