



# TAX PULSE

## CONTENTS

---

Welcome	1
Climb Evr'y Mountain	2
High on a Golf Course	2
Small Things Matter	3
The Art of Giving	4
Using a Donor Advised Fund	5
Inheritance Tax and Nil Rate Bands	7
The March Budget: Silence is Golden	8

## WELCOME

---

**W**elcome to the Spring 2021 edition of Tax Pulse, our regular update on tax related matters. In this issue we focus on charitable giving and also on Inheritance Tax Reliefs. We update you on the relevant personal tax news and also say “goodbye” to David Barker and Paul Baker as they retire from the partnership.

The next edition of Tax Pulse will be in the early Autumn. We hope by then that you will have had enjoyable summer holidays and that we are welcoming you again to our offices on a regular basis. We shall see!

### *The Partners*

## CLIMB EVR'Y MOUNTAIN

---



If there were to be a “theme tune” for every R&H partner, “Climb Evr’y Mountain” would have to be David Barker’s. David, who retires on 31 March this year, is a keen holiday mountaineer and part of his decision to retire is derived from his urge to climb even more mountains.

But it is not just physical mountains that David has climbed during his professional career. David is known throughout the tax profession as one of the few tax practitioners capable of ascending the most difficult peaks in the tax legislation. He is known too for combining this with calm and practical advice, from which his clients have benefited over the years.

David joined the firm in 1997 and has been a partner for over 21 years including, a time as the firm’s managing partner. Many of the firm’s younger partners benefited from his mentoring, and his counsel, modesty and good humour will be missed by all the firm and his clients.

David was also an outstanding ambassador for the firm in the professional market. One can seldom meet an investment professional or lawyer who doesn’t immediately break into a cascade of praise and admiration for David’s contribution to the profession.

We all wish him well as he finds that next mountain to climb.

## HIGH ON A GOLF COURSE

---

April also sees another much loved and respected partner, Paul Baker, retiring as a partner after 19 years with the Firm. Clients will be pleased to hear that Paul is remaining as a consultant. Paul has had a hugely successful career at the firm, has acted for a number of large family offices and was also the partner who built our private equity practice.

If David Barker is heading for the mountains, Paul will be spending his ‘extra’ time on the golf course as he seeks to become as good a golfer as he is a tax adviser (that will require you to get a scratch handicap then, Paul).

David and Paul, despite their different interests, are great colleagues and so to foster their past partnership and friendship we thought we should suggest some venues where they could meet while pursuing their different passions. So keep an eye out for Paul and David on these mountain golf courses:–

Banff Springs, Alberta.

Whistling Rock, South Korea.

Andermatt, Swiss Alps Golf Course.

Legend Fold and Safari Resort, South Africa (helicopter required to lift you to the first tee Paul, although of course David will climb there).





## SMALL THINGS MATTER

---

*Read this if you want to benefit from some of the smaller tax reliefs that can add up to big savings.*

The present difficulties have caused many of us to re-focus on the small things that matter – for example, family, friends and work colleagues or a simple “thank you”.

These are critically important things but, without demeaning them, being tax advisers we began to think of some of the smaller reliefs as minor “tax breaks”. These can often be overlooked, but at a time when people are reviewing their positions they should perhaps be placed higher up the agenda.

Inheritance tax (IHT) is particularly blessed with small reliefs. An individual can give away up to £3,000 each tax year without an IHT charge. If the relief is not used in any one year it can be rolled forward for one tax year only. This relief can operate by deducting £3,000 from a larger gift.

There is also a small gift relief. Any number of £250 gifts can be made provided they are to different recipients. In this case, the sum cannot be part of a larger gift. It is not possible to combine the £250 gift with the £3,000 annual exemption.

Parents can each make IHT free gifts to their children of £5,000 on the occasion of their marriage, which can amount to £20,000 for the lucky couple if all four parents are alive and on generous form. Grandparents can top this up by £2,500 and others have an allowance of £1,000. The gifts must be conditional on the marriage taking place and technically must be reclaimed if the marriage did not occur. That could obviously test the donor’s diplomatic skills!



Capital Gains Tax (CGT) also has a number of “small things matter” type provisions. These include the annual exemption, which for 2020/21 stands at £12,300 for each taxpayer (including minor children). If the exemption is not used in a tax year it is lost – so if you read this before 5 April, you may wish to act now. Any unused exemption cannot be transferred to a spouse, although assets might be gifted to a spouse to enable him/her to use their exemption. Take care, here, however as gifts between spouses are generally not chargeable. So, for example, a husband could not use his annual exemption on a gift of quoted shares to his wife. Instead, the husband would have to sell them in the market. His wife could then buy them in the market so as to protect against the risk of market movement. If the husband bought them back within 30 days, he would trigger the “bed and breakfast” rules and his annual exemption planning would not be successful.

In the case of items such as jewellery, fine wine or antiques if the disposal consideration is £6,000 or less the gain is exempt from CGT.

In the world of income tax, small things can matter too – such as the division of assets between spouses to ensure the optimal use of tax allowances. In this context, see the item [Divide and Conquer: Jointly Owned Assets](#) in [Issue 2 of Tax Pulse](#).

One of the few good consequences of Covid 19 has been to quieten the world, so smaller voices can be heard. Some of the junior tax reliefs and exemptions fall into that category.

## THE ART OF GIVING

*Read this for an introduction to the topic of charitable donations.*

The unprecedented events of 2020 have had an undeniable impact on all aspects of our lives and livelihoods but when a crisis hits, it is those in most need that suffer the most. Charities were without doubt among those affected badly last year. Despite an initial surge in emergency philanthropy, global restrictions on movement resulted in an inability to volunteer and hold proper organised fundraising events, which, fuelled by general nervousness about the state of economies and finances, led to a lack of physical support and significantly reduced cash inflows (as an example, the take from the Virtual London Marathon was only about 25% of the 'normal life' one).

Better times lie ahead – we hope – and in the meantime people have had plenty of time to stop and think about what matters most. What the pandemic did bring to the forefront is the critical importance of a solid foundation for resilience no matter what. Health and wellbeing, both physical and mental, caring for the environment and making a positive social impact are all key to building a more sustainable world to enjoy and perhaps even prosper mightily in. You get what you give.

Whilst for most the act of giving – whether through donating time, money or other resources – is rewarding enough in itself, a carefully thought out tax strategy will ensure that all stakeholders – the charities, those they provide for, the wider community, but also the donor – reap the benefits. As one would expect, a number of alternative options are available here.



The most common form of cash giving is the Gift Aid scheme, where a £10,000 donation results in £12,500 for the charity whilst giving an additional rate paying donor 25% tax relief, and thereby costing them only £6,875. Those non-UK domiciled can give away their previously untaxed foreign funds to UK charities without triggering a taxable remittance as long as their charity of choice has a bank account overseas. Dual US/UK taxpayers could get relief in both countries through using a CAF American Donor Fund.

Any Gift Aid donations made before a tax return is filed by the normal 31 January deadline can be claimed on the return and carried back one year, thus accelerating relief – but this is an all or nothing act, as claiming relief on a part of a donation is not possible. If in doubt, you may be better off making several smaller donations so that you (or your tax adviser) can pick and choose what to do with them. Making sure you do pay enough overall tax to frank the tax that the charity will reclaim is key; otherwise, the underpayment will need to be corrected via your Self Assessment tax return.

It is also worth noting that generally you must not get a benefit in exchange for your donation as this would negate Gift Aid relief; the rules for establishing whether a benefit is received and that it is not excessive are quite complex, so it is best to avoid such scenarios.

One other option for smaller regular gifts is payroll giving, also known as the Give As You Earn scheme: your contributions will be withheld from your remuneration thereby giving your immediate relief at source and not requiring any action apart from setting it up. It is often the case that employers match donations made under this scheme so a charity could get double the benefit, whilst the employing entity will also get relief, by deduction or otherwise. A win-win for all.

For those less liquid, a gift of an asset may be a more appropriate route. Relief for non-cash donations is available for only a few types of assets though, such as land, buildings or shares and securities meeting certain conditions. There is no tax for the donor on the deemed disposal that arises on a gift, and the full market value of the asset gifted will be deducted from the donor's taxable income. The two potential issues here are the inability of some charities to accept non-cash contributions and, from the taxpayer's perspective, less flexibility as relief for such gifts can only be claimed in the year they are made.

Leaving assets to a charity in your will is yet another way to make your mark: giving away at least 10% of your estate will mean that the Crown ends up receiving 10% less IHT. It is also possible to vary a will if you are due a legacy part of which you wish to give away immediately.

As regards capital taxes, for CGT purposes gifts to charity are on a no gain/no loss. In appropriate cases, however, a taxpayer may prefer to sell the assets (perhaps to realise a capital loss) and then make a gift of the cash to a charity taking advantage of the gift aid rules. For inheritance tax purposes, the gift to charity is exempt from tax.

Those with larger scale charitable aspirations may wish to go the extra mile and set up a charitable foundation to consolidate their efforts. This is not a straightforward process and consideration must be given to the appropriate form, name and purpose of the foundation, with amounts of paperwork to fill in initially and on an ongoing basis to comply with relevant reporting requirements. Those who do not wish to deal with the administrative burden of setting up and running their own foundation may be better off using a Donor Advised Fund, which affords similar benefits in exchange for lesser effort. A good story for the next page...

## USING A DONOR ADVISED FUND

---

By Anna Josse of Prism the Gift Fund

***Read this article if you are considering a charitable donation but don't want the cost and formality of creating your own charity.***

To assist with tax effective charitable giving, donors could consider Donor Advised Funds which are a time, cost and tax-effective alternative to having a private grant making foundation. For donors looking to streamline their giving, with a simpler more flexible giving vehicle, they should consider opening a Donor Advised Fund.

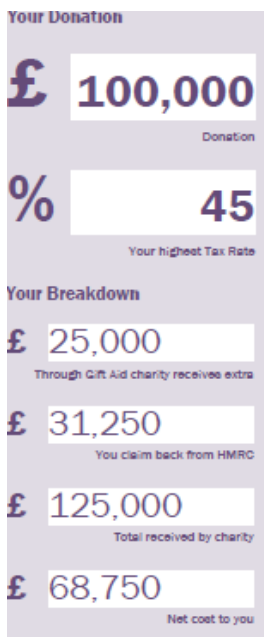
For high-net-worth, time-poor individuals a Donor Advised Fund is an "Own Name Foundation" that provides the donor with the choice to onward gift to causes they care about all over the world. The vehicle is operated by a charitable entity that removes the burden and responsibility of running a standalone charitable structure. This alleviates the legal liability that befalls trustees without the ongoing and set up costs associated with establishing a standalone charitable structure.

A donor can gift cash, shares, property, and art to their Donor Advised Fund, receiving immediate tax relief on the donation. The Donor Advised Fund can be in the name of the donor or should the donor wish, they can remain anonymous. The donor can also nominate the Donor Advised Fund in their will for legacy gifts.

Donor Advised Funds are the future of philanthropy in the UK. The fierce regulatory environment that charities are now operating in means that unless it is your "day job" – i.e. running a fully operational charity with staff and offices – gone are the days of setting up a family foundation or trust and thinking they're easy to run.

With a Donor Advised Fund, the donor can rest assured that the governance and compliance required to operate a foundation efficiently and effectively is overseen by the Trustee board of the non-profit team running the Donor Advised Fund. A donor has the joy of giving without the hassle of worrying about whether they have the correct policies in place and if their protocol on overseas gifts is robust enough for the Charity Commission

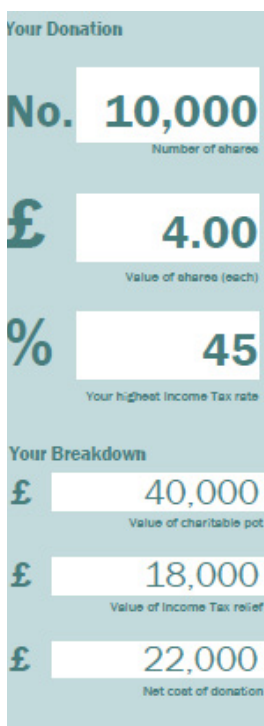
[Prism the Gift Fund](#). 'Prism', is a UK registered charity set up in 2005 to administer the giving of groups, individuals and foundations making significant gifts to charities. Here are some simple examples below of gifts of cash, and shares. Prism encourages tax effective giving to increase the flow of funds into the charity sector.



### Gifts of Cash – Gift Aid

Donations that qualify for Gift Aid may be topped up by 25% by HMRC given to the charity, but the donor may be eligible for additional relief, if properly recorded on a donor's tax return, to the value of either 20% (for 40% rate payers) or 25% (for 45% rate payers) of the gross donation.

This Gift Aid tax incentive is also relevant for resident non-domiciled individuals. UK taxpaying individuals who have money sitting offshore can donate those funds to a charity with an offshore account such as Prism Offshore. This could be deemed a non-taxable remittance and yet the donation could be eligible for Gift Aid as a donation to a UK charity. If the donor earns enough income in the UK to pay a higher rate of tax, there is also the opportunity to reclaim the additional 25% on the gross donation from HMRC. Utilising Prism Offshore also means that donors can onward gift the funds to an international charity.



### Gift of Shares – Capital Gains and Income Tax Relief

Donors can make gifts of shares listed on any global stock exchange to charities in the UK. Gifted shares not only come with full income tax relief at the highest rate, but also pass free of Capital Gains Tax.

The same relief applies to gifting a property to charity. A donor can make a gift of a residential property to a charity which can then look to either sell or rent the property with the proceeds/rental income going to fund the charity's work. The example below sets out the process and tax relief:

A client of Prism's donated a property to Prism that was originally worth £450,000, at the point of sale it had a value of £1,000,000. The property was independently valued before sale and then a buyer was lined up to buy from Prism on the same day. The donor was able to claim income tax relief on the value of the donation, worth up to £450,000 as a 45% taxpayer. In our example, the donor created £1,000,000 for charity at zero net cost to themselves.

Anna Josse  
Co-Founder and CEO, Prism the Gift Fund  
anna@prismthegiftfund.co.uk



## INHERITANCE TAX AND NIL RATE BANDS

---

### *Read this if you wish to make optimal use of your inheritance tax nil rate bands*

Inheritance tax is payable, usually on a death but sometimes during the donor's lifetime, on chargeable transfers in excess of a nil rate band (NRB).

While the above nil rate band is widely known and used, there are two other nil rate bands in addition to the 'ordinary' NRB. First, from 6 April 2007, a surviving spouse or civil partner has been able to claim a transferred NRB for any unused part of the NRB of the predeceasing partner.

Secondly, from 6 April 2017, an additional residence nil rate band (RNRB) may be available where a residence, or in certain cases the value represented by a former residence, is inherited by children or other descendants. An unused amount of RNRB on the first death may be used by a surviving spouse or civil partner as brought forward RNRB.

The current rates are £325,000 for the NRB and £175,000 for the RNRB. For a couple, therefore, a total of £1 million may pass free of IHT. The recent Budget announced that these NRB and RNRB amounts will remain unchanged until 5 April 2026.

While the concept of allowing at least a part of the value of a family home to pass to children or grandchildren is straightforward and commendable, the legislation is complex.

The RNRB is reduced by £1 for every £2 that the value of the estate exceeds £2 million. Liabilities are deducted in the ordinary way in determining the value of the estate, and 'excluded property' foreign assets owned by foreign domiciliaries are not counted. But the value of the estate is taken before any exemption, such as spouse exemption, or relief, for example business property relief.

Taxpayers should review their wills to check that RNRB will be available. In particular, the £2 million limit may mean that it will be preferable to avoid 'bunching' estates, so that the first to die should make some chargeable transfers, rather than leaving everything to the surviving spouse.

Unlike the NRB, the RNRB is only available against the death estate (not failed potentially exempt transfers or other chargeable lifetime transfers) when the relevant conditions are met. The RNRB is, however, used in priority to the NRB.

The property need not have been the deceased's main residence but it must have been occupied as a residence; an investment property which has always been let will not qualify. If the deceased does not own a residence on death but has owned one on or after 8 July 2015, relief may still be available if assets of value up to the amount of the RNRB are inherited by descendants. In that case, a record should be kept of the value of the property, for the purpose of the later 'downsizing relief' claim. This claim is also possible when the individual moves into a less valuable property.

Property held in trust can qualify for RNRB if the deceased had a 'qualifying' life interest, that is one under which the property was treated as part of his estate for IHT purposes. In that case, the RNRB will apply if a lineal descendant becomes absolutely entitled to the property.

It should be noted that a claim is required, generally within two years of the end of the month of death, for brought forward RNRB and downsizing allowance.

RNRB will be a valuable relief for those who meet the conditions, and in such cases should be on the agenda when a will is next reviewed.

## THE MARCH BUDGET: SILENCE IS GOLDEN

---

The Chancellor delivered his Budget on 3 March. Please click [here](#) for our detailed review of the changes announced. The Budget summed up the wider picture at present – proceeding cautiously, still worried but trying to be as upbeat as possible and hoping that better times are close.

From the personal tax perspective, however, the Budget was largely silent, although there were some so-called “stealth” tax rises.

However, there was no sign of any changes to the capital gains tax rates and no changes to the infrastructure of Inheritance Tax. It remains easy to speculate about, but hard to predict, the future personal tax landscape. Tax rises seem inevitable but when they arrive, and what they might look like, is beyond even the imagination of the Chancellor at the moment. The next Budget is expected in November and it is possible tax changes introduced then could be effective from 6 April 2021. The Chancellor has already announced the inheritance tax rate bands up to 2025-26.



March 23 was Tax Day, and saw the publication of a number of consultations which focus on tax administration and tackling non-compliance. There was no mention of CGT increases or other tax rises.

With such an uncertain playing field, the only sensible strategy is to let commercial logic govern the position; sell assets and make family gifts if there are commercial or emotional reasons to do so. Trying to outguess the Chancellor could otherwise prove costly in the long run.

## Partners

Mark Harris  
Private Client Services  
mark.harris@rawlinson-hunter.com  
0207 842 2125

Kulwarn Nagra  
Corporate Services  
kulwarn.nagra@rawlinson-hunter.com  
0207 842 2130

Andrew Shilling  
Corporate Tax & Stamp Duty Services  
andrew.shilling@rawlinson-hunter.com  
0207 842 2135

Craig Davies  
Corporate Services  
craig.davies@rawlinson-hunter.com  
0207 842 2136

Graeme Privett  
Private Client & US Tax Services  
graeme.privett@rawlinson-hunter.com  
0207 842 2137

Chris Hawley  
Trust & Wealth Services  
chris.hawley@rawlinson-hunter.com  
0207 842 2138

Phil Collington  
Private Client Services  
phil.collington@rawlinson-hunter.com  
0207 842 2139

Toby Crooks  
Trust, Wealth & Private Client Services  
toby.crooks@rawlinson-hunter.com  
0207 842 2140

Michael Foster  
Trust, Wealth & Private Client Services  
michael.foster@rawlinson-hunter.com  
0207 842 2223

Paul Huggins  
Private Client Services  
paul.huggins@rawlinson-hunter.com  
0207 842 2197

Trevor Warmington  
Private Client Services  
trevor.warmington@rawlinson-hunter.com  
0207 842 2198

James Randall  
Corporate Tax Services  
james.randall@rawlinson-hunter.com  
0207 842 2131

Kristina Volodeva  
Private Client Tax  
kristina.volodeva@rawlinson-hunter.com  
0207 842 2126

David Kilshaw  
Private Client Services  
david.kilshaw@rawlinson-hunter.com  
0207 842 2129

Alan Ive  
Private Client Services  
alan.ive@rawlinson-hunter.com  
0207 842 2256

Catherine Thompson  
Corporate Services  
catherine.thompson@rawlinson-hunter.com  
0207 842 2028

## London Office

Rawlinson & Hunter LLP  
Eighth Floor  
6 New Street Square  
New Fetter Lane  
London EC4A 3AQ

## Leatherhead Office

Rawlinson & Hunter LLP  
Q3, The Square  
Randalls Way  
Leatherhead  
Surrey KT22 7TW

**Tel: 0207 842 2000**

**[www.rawlinson-hunter.com](http://www.rawlinson-hunter.com)**

Tax Pulse is intended solely as an overview of complex tax legislation. No action or omission should be taken in reliance on the articles in this issue without full and appropriate professional advice.

Rawlinson & Hunter is the trading name of Rawlinson & Hunter LLP, a limited liability partnership registered in England & Wales with registered number OC43050. The term partner, when used in relation to Rawlinson & Hunter LLP, refers to a member of the LLP. This communication contains general information only, and Rawlinson & Hunter LLP is not rendering professional advice or services by means of this communication.