

## The Office of Tax Simplification and what it means to you....

The Chancellor and Exchequer Secretary launched the Office of Tax Simplification on 20 July 2010 to provide the Government with independent advice on simplifying the UK tax system. The Chancellor has asked the Office of Tax Simplification to carry out two initial reviews – a review of all tax reliefs and a review of small business taxation.

The OTS published an interim report of the review of tax reliefs on Monday 13 December 2010. The report acts as a test to gauge reaction to the OTS methodology for the rest of the review.

The OTS is keen that this interim report continues to generate debate and feedback on all tax reliefs under the review and is seeking views on the methodology behind the review. This will be seen as a 'taster' ahead of the full report due before Budget 2011.

This is the theory behind it. The UK tax system is too complex and we will wait to see if this changes things. The issue for this sector is there are a number of specific reliefs that, on the whole, are beneficial and it will not be good if these are lost. The hit list includes:-

1. Farmers Averaging for Income Tax purposes
2. Taxation of Woodlands
3. Potentially Exempt Transfers for Inheritance Tax purposes
4. Taper Relief for Inheritance Tax purposes

It is early days so it is impossible to draw conclusions on where this may go. Naturally as one of the most influential firms in this sector, we will be helping various bodies make representations on this.

Our advice to you is to seriously consider accelerating any planned Inheritance Tax transfers before the next budget but remember, tax considerations are only a minor part of long-term planning.

There is not a lot that can be done about the others other than to fight the sector's corner.

### Furnished Holiday Lettings (FHL)

Proposed changes to legislation

- the minimum annual period over which a qualifying property must be available for letting to the public is increased from 140 days to 210 days with effect from April 2012;
- the minimum annual period over which a qualifying property is actually let is increased from 70 days to 105 days with effect from April 2012;
- losses made in a qualifying furnished holiday lettings business may only be set against income from the same furnished holiday lettings business; and
- a "period of grace" will be introduced to allow businesses that don't meet the "actually let" requirement for one or two years to elect to continue to qualify throughout that period.

### Restrictions to Pensions tax relief

- 2010/11
  - a. An employer may make a contribution in excess of the 'Special Annual Allowance' (somewhere between £20k and £30k), subject to the £255k 'annual allowance' (remember also the £1.8m lifetime allowance).
  - b. Transitional rules for the annual allowance have effect on and after 14 October 2010, the day the changes (described below) were announced. Advice should be sought where significant personal or employer contributions are envisaged.

- 2011/12
  - a. The annual allowance will be reduced to £50k and will apply to employee and employer contributions.
  - b. Any contributions in excess of the annual allowance will result in a charge as if the excess contribution were treated as the top slice of income and taxed accordingly.
  - c. Unused annual allowances for the previous 3 years will be available to carry forward into the current year. The annual allowance for 2008/09, 2009/10 and 2010/11 is deemed to be £50k for the purposes of calculating carry forward allowances. The order of set off will be the current years' annual allowance first and then unused allowances brought forward using the earliest year first. Note that if you were not in a pension plan for each of those earlier years then you will not have an annual allowance for that year to carry forward.

- 2012/13

From April 2012 the lifetime allowance will reduce from £1.8m to £1.5m, rules will ensure that the reduction in the limit will not be retrospective.

### **Removing the effective requirement to annuitise by age 75**

From 6 April 2011 the requirement to secure a pension by age 75 is being removed.

- the Alternatively Secured Pension rules are being repealed so removing the effective requirement for pension savers to buy an annuity by age 75;
- the maximum income an individual may drawdown will be capped at 100 per cent of the equivalent annuity and will apply for as long as the fund is retained. The minimum annual withdrawal amount from age 75 is abolished;
- the maximum capped amount that may be withdrawn will be determined at least every three years until the end of the year in which the member reaches age 75, after which reviews will be carried out annually;
- individuals with drawdown pensions who have alternative lifetime pension income of at least £20,000 a year will be able to access the whole of their drawdown funds as pension without a limit on annual withdrawal (subject to their provider offering flexible drawdown pensions);
- most of the rules preventing pension schemes from paying lump sum benefits after the member has reached the age of 75 are being removed;
- the tax rate for all lump sum death benefits is to be set at 55 per cent, apart from death benefits for those who die before age 75 without having taken a pension, which will remain tax free;
- unused drawdown pension funds of a member who dies with no living dependants may be donated tax free to a charity.

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Please contact your usual Chavereys contact if you have any specific questions on the above.

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