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TaxTalk

Simplifying the complexities of Tax

August 2023

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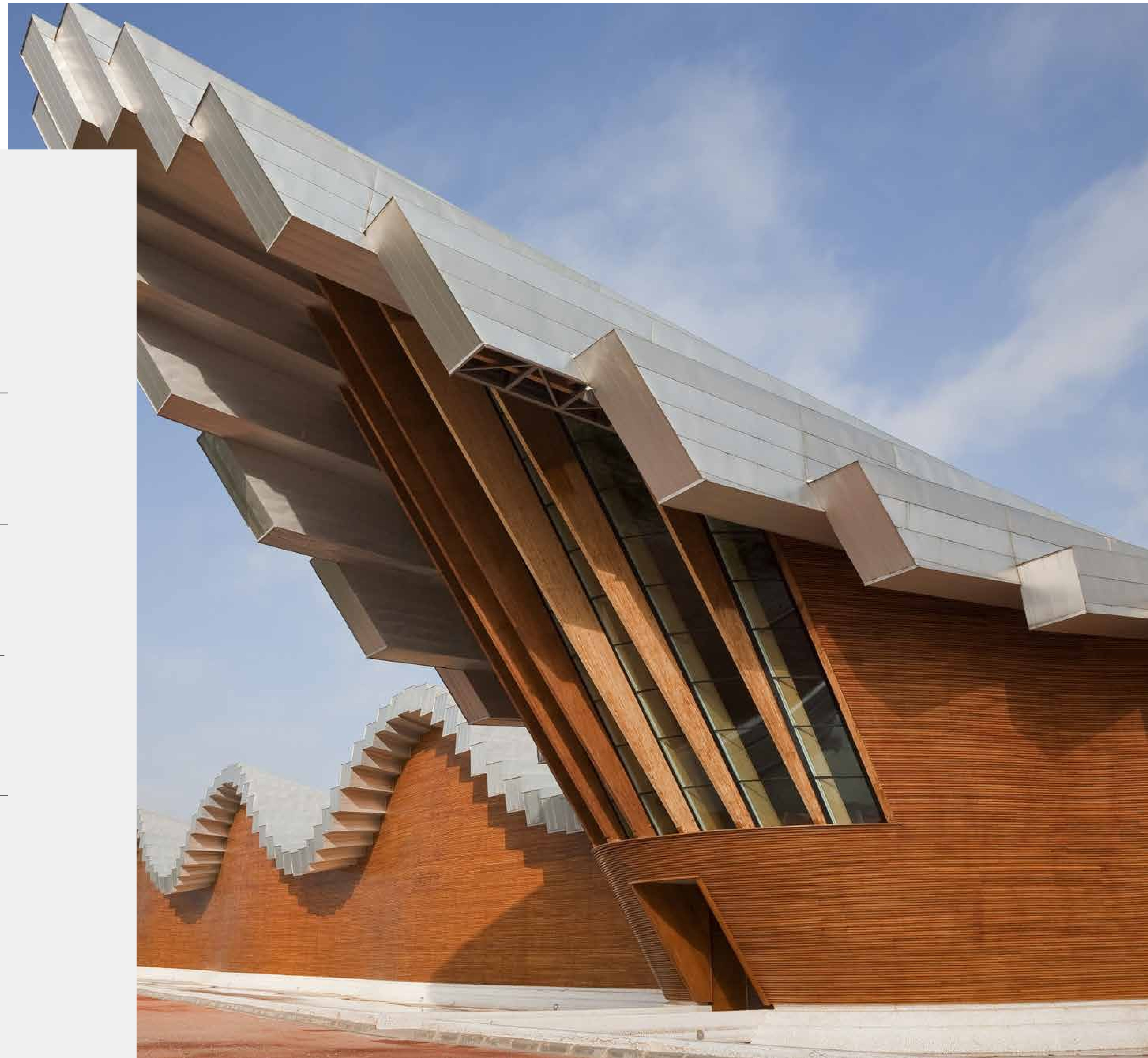


Inheritance Tax: for or against?

The Conservative Party are weighing up the option to do away with Inheritance Tax (IHT) before the next general election. Andrew McCready considers alternative strategies.

In recent months, The Telegraph has led a concerted campaign calling for the abolition of IHT. The campaign has garnered support from former cabinet ministers such as Jacob Rees-Mogg and Nadhim Zahawi. Even Liz Truss is on record saying that she was set to abolish IHT during her ill-fated premiership.

How is IHT applied?

IHT was introduced in 1986 to replace the capital transfer tax. Although championed by the then Chancellor Nigel Lawson as a tax simplification measure, the IHT regime is stuffed with exemptions and reliefs that can be notoriously difficult to navigate.

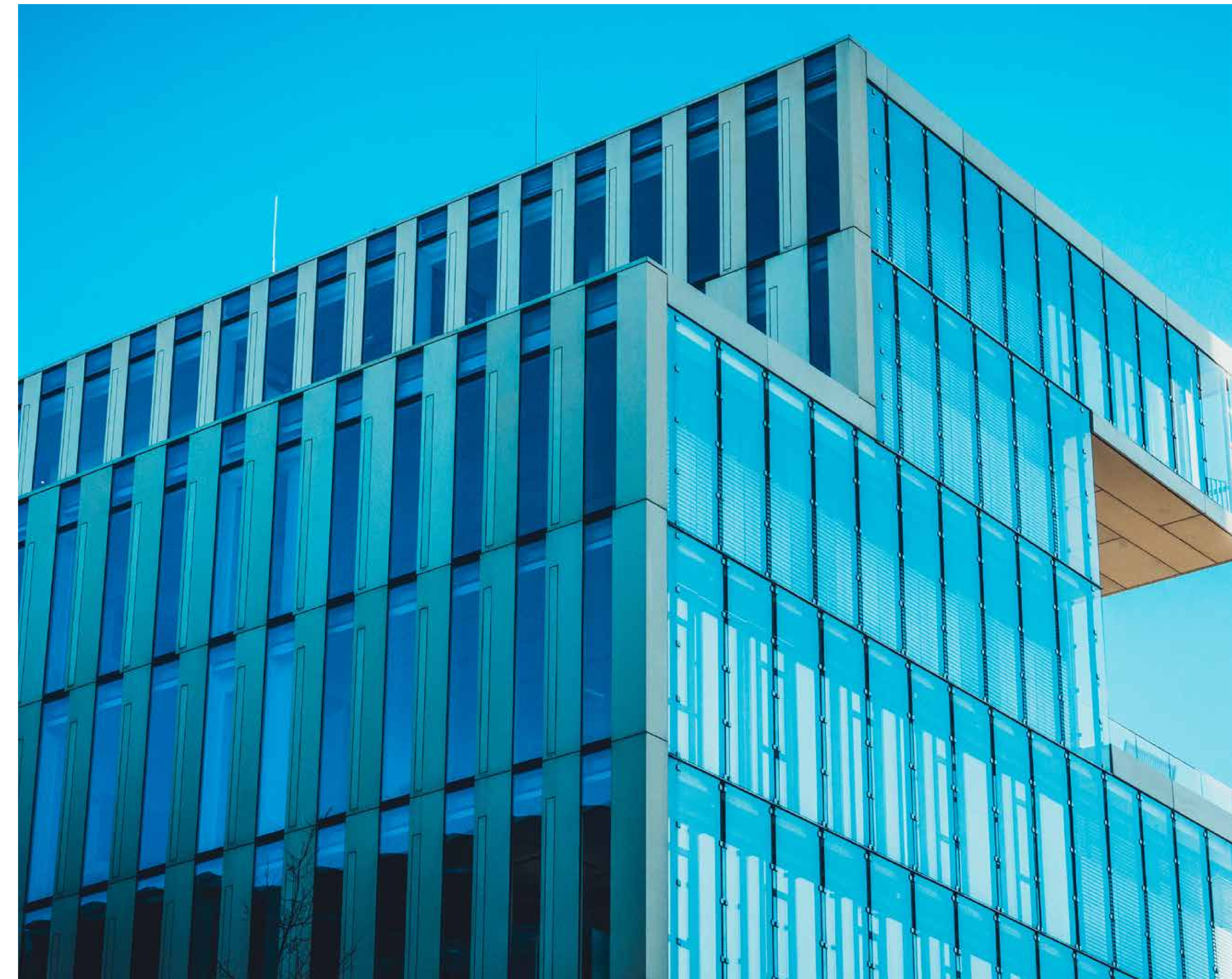
In a nutshell, while IHT can be payable during lifetime on gifts to trusts, it is most commonly payable after a person's death by the executors of their estate. The standard rate of IHT is 40% and may apply if the value of an estate exceeds the nil-rate band of £325,000. Any unused element of the nil-rate band can be transferred to a spouse or civil partner on death, effectively doubling the allowance to £650,000.

If you bequeath your main residence to a direct lineal descendant (such as your children or grandchildren), the residence nil-rate band of £175,000 may also be available, increasing the maximum nil-rate band to £500,000 each. But if the total value of your estate exceeds £2m, the residence nil-rate band will be tapered at £1 for every £2 over the £2m threshold.

There are various IHT gift exemptions available to individuals, such as the £3,000 annual exemption and the £250 small gifts exemption.

Should IHT be abolished?

The status quo is not an option for future governments, given IHT's position as Britain's most hated tax. But I am not convinced by the arguments of those who call for its abolition. My own view is that the public's hatred for IHT stems largely from a resentment of double taxation (although double taxation is present in many forms throughout the tax system) and a general misunderstanding of how IHT is levied.



Inheritance Tax: for or against?

Fewer than 5% of deaths result in an IHT charge by HMRC. Although we can expect this percentage to increase given the nil-rate band freeze until 2027/28 at the earliest, most estates will not suffer IHT at its current rate.

IHT is also becoming increasingly lucrative for the Treasury. The Office of Budget Responsibility forecasts that IHT receipts will raise £8.4bn by 2027/28, up from £7.2bn in 2022/23. If the current Government (or a future one) were to abolish IHT, it would be required to raise this money through different means.

Alternatives for reform

The IHT regime needs major reform. For any future government to show it is serious about tax simplification, it must consider the IHT regime as one of its first targets.

I would make three suggestions for simplifying the current regime:

1. Abolish the residence nil-rate band and increase the standard nil-rate band to £500,000 per person. This would mean that most spouses could jointly bequeath £1m free of IHT to their chosen beneficiaries following the death of the second spouse.
2. Cut the headline rate of IHT to 20% from its current 40%. This could be funded through the removal of various IHT reliefs such as business property relief and agricultural property relief, or by abolishing the tax-free Capital Gains Tax uplift on death.
3. Abolish the various lifetime IHT gift exemptions and 7-year rule, replacing them with a single annual gift allowance. Any lifetime gifts made over-and-above the gift allowance could be subject to a lower rate of IHT.

It goes without saying that there is no silver bullet when it comes to IHT, but I believe The Telegraph is wrong in calling for its abolition. Instead, future governments should stop tinkering around the edges or ignoring the problem altogether, and carry out significant reform to the current IHT regime.

For more information on issues raised in this article, please contact Andrew McCready

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Pension tax changes: how to take advantage

This year's Spring Budget brought in a raft of changes to pension tax in favour of the taxpayer. We break down what you need to know.

As part of Jeremy Hunt's efforts to "help people extend their working lives", the recent Budget introduced some major changes to pensions tax. Although the measures primarily aimed to retain GPs and other doctors, they could also benefit anyone looking to grow their pension pot tax efficiently.

The headline changes are:

1. The lifetime allowance will be abolished in two stages
2. The annual allowance has been increased from £40,000 to £60,000
3. The money purchase annual allowance is increased from £4,000 to £10,000.

Lifetime allowance (LTA) abolished

Before 6 April 2023, the LTA limited the amount of tax-relieved value that could be saved into a pension scheme. It did this by charging 55% Income Tax on excesses taken out as a lump sum, or 25% when used to pay pension benefits. The limit was £1,073,100, unless you had acquired certain protections.

From 6 April, the Income Tax charge no longer applies. Amounts that would previously have incurred the tax are instead treated as income taxed at marginal rates. But the LTA will still be relevant in determining the size of certain lump sums, and how to tax them.

For example, the pension commencement lump sum – a tax free sum available when an individual becomes entitled to pension benefits from their scheme – is normally limited to the lower of 25% of the pension fund, or 25% of the individual's available LTA. So while there is a new upper cap of £268,275 (25% of the old LTA), those with LTA protections will have a higher cap.

Where an individual holds pension savings over the £1,073,100 limit and does not already have protection, they could now consider applying for 'individual protection 2016' – brought in when the LTA was reduced in 2016. It provides a personal LTA equal to the savings held at 5 April 2016, subject to a cap of £1,250,000.

But for tax return compliance please note that, despite the abolition of the LTA in 2023/24, the legislative changes will not be finalised until a future finance bill. This means that reporting on benefit crystallisation events remains in force and is still a required part of the tax return, if relevant.

An opportunity for Inheritance Tax (IHT) planning?

So far there have been no announced changes to the IHT treatment of pensions. Yet, in most cases pension funds not drawn before death will be passed to the beneficiary free of IHT. There can be a charge if the individual dies after age 75 (the beneficiary will draw down at their marginal rate) but this tends to be less expensive than IHT itself. Those looking for ways to lower their exposure to IHT could now consider their pension as a possible vehicle, given these changes.

On the other hand, the Labour party has indicated it would want to reverse these changes. So there could be a risk to this strategy after the 2024 General Election. While previous changes to the LTA have come with protections to preserve what was available, we don't know for sure if Labour would make such a provision.

Pension tax changes: how to take advantage

Annual allowance increased

The annual allowance for pension inputs limits the amount of Income Tax relief on pension contributions per tax year. Before 6 April this limit was £40,000, with an additional taper of £1 for every £2 that an individual's adjusted income exceeded £240,000, down to a minimum of £4,000. For example, an individual with an adjusted income of £250,000 – an excess of £10,000 over the adjusted income threshold – would lose £5,000 of annual allowance.

From 6 April, the new maximum limit is £60,000, and the adjusted income threshold has been raised to £260,000 with a minimum after tapering of £10,000. This will allow individuals to save even more into their pension tax efficiently – especially useful with no lifetime allowance charge looming.

Money purchase annual allowance increased

Similar to the annual allowance, the money purchase annual allowance limits Income Tax relief on contributions made specifically to those who have taken pension benefits from defined contribution or money purchase arrangements. The limit has been increased from £4,000 to £10,000.

Whether you are looking to build your pension with the enhanced annual allowances, or increase your existing pot thanks to the removal of the LTA charge, these changes provide scope for more fruitful pension tax planning. However, the planning opportunity needs to be balanced with the chance these changes are reversed by a Labour Government.

If you'd like more in-depth guidance and advice, please contact Sam Meir.

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UK tax liability for offshore sports stars and entertainers

The UK Summer of sport is coming to a close, but with all of the performance fees and prize money, athletes need to avoid being caught out by HMRC and aware it's not just their winnings that are taxable in the UK.

As with all individuals, the UK tax system for sports individuals and entertainers begins with their tax residency position. This is determined by the UK's Statutory Residence Test (SRT). More detail can be found here.

If UK resident, by default they will be subject to UK taxes on their worldwide income and gains. Depending on their domicile position, they may be able to make a claim to be taxed on the remittance basis, and make an additional claim for Overseas Workday Relief (OWR) to reduce their exposure to UK taxes. More detail can be found here.

Non-UK resident individuals in the sport and entertainment world that travel to the UK for tournaments or events and are present in the UK for only a short period, can have further complications to their tax positions.

UK-specific earnings

Athletes and entertainers receiving specific UK earnings are liable to tax in the UK on these amounts. This is based on income relating to a 'relevant activity' such as, a tournament or a concert in the UK.

For example, the £2.35 million Carlos Alcaraz and Markéta Vondroušová each won, will be liable to UK taxes regardless of their tax residency position. Similarly, when KISS came to The O2 earlier in July for their retirement tour, the income from this will be liable to UK taxes.

For these athletes and musicians, even though their winnings or tour fees are liable to UK tax, the income may also need to be reported and taxed in their country of residence. It is key to check the relevant Double Tax Agreement (DTA) and ensure the available tax credits are claimed. Just like the UK-specific earnings, UK-specific business expenses can usually be claimed to reduce the taxable profit. These might include direct flights to and from the UK, or accommodation throughout the stay in the UK.

The organisations that pay the prize money, or fees, must review the expected amounts due to each individual and, should they exceed the personal allowance (£12,570 for 2023/24), withhold basic rate tax at 20% from the payment. On this basis, Wimbledon will have paid HMRC over nearly £1 million in respect of the winner's prize money alone.

UK tax liability for offshore sports stars and entertainers

Global income

The term ‘relevant activity’ is not limited to only the UK-specific earnings. Where individuals receive endorsements or sponsorship payments, the proportion relating to their UK activity is also liable to UK taxes.

For example, some sporting stars receive sponsorship from a brand, or brands, and as part of the sponsorship deal, must wear the brand throughout training and tournaments. So, the recent British Open winner, Brian Harman, will need to apportion his endorsement income from brands, like Titleist, for the time he was in the UK relating to this. In some circumstances, it will be important to check the endorsement contract to confirm what exactly could be liable to UK taxes.

For UK tax purposes, the proportion of their time in the UK wearing those brands or using the products is deemed UK income and liable to UK taxes. It’s worth noting that a sponsorship bonus specifically for winning a UK tournament would be treated as fully UK income and be taxed here.

Looking at worldwide endorsement income, HMRC suggests two ways to assess the proportion of the endorsement or sponsorship liable to UK taxes. These are the relevant performance days (RPD) method, or the relevant performance and training days (RPTD) method.

A performance day is a day where an individual is performing in public, for a competition or for training purposes. A training day is three hours or more of activity spent training towards their sport where the public are not watching. In effect, the calculation apportions the individual’s worldwide endorsement income to their UK days, based on their total days performing (and training) in the year.

The RPTD method is essential for those sports where the actual time ‘performing’ might be limited over a tax year like Boxing, or Formula 1 racing drivers. Whereas ‘training’ can include any physical activity which contributes towards the performance of their sport and may include maintaining general fitness.

Where an individual’s worldwide endorsement income is brought into UK tax, appropriately apportioned related business expenses be claimed against this income.

For example, where an agent charges a 10% fee on the endorsement income earned, a similar RPD or RPTD calculation should be used to apportion this expense against the income.

The UK tax system

Basic rate tax at 20% may be deducted from the direct payments at source. But, if the total UK taxable earnings exceed around £50,000, additional tax will be due to HMRC and that means completing a UK Tax Return.

Regardless of the level of UK earnings it’s always a good idea to complete a UK Tax Return to correctly report the income and expenses, including the apportioned endorsement income. That way all UK tax is paid to HMRC (or reclaimed).

If an individual receives income in the UK tax year to 5 April, they have until 5 October of that year to register with HMRC. The Tax Return, and any tax payable, is due by 31 January of the following year.

UK tax liability for offshore sports stars and entertainers

But, as always, there are some exceptions. For example, income relating to the 2012 London Olympic and Paralympic Games was specifically exempt from UK taxes, and similar one-off "blue chip" events will require similar exemptions if they are awarded to the UK.

What should you do now?

It's key for entertainers, athletes and their agents to be well informed and aware of the UK tax implications of their travels. Ignoring the UK tax consequences and not getting the correct advice can lead to expensive penalties from HMRC.

There can be further complications when the funds are paid into a connected company or other entity instead.

If you would like advice on any of the issues raised in this article, please contact Phil Clayton.

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We provide a full range of audit, accountancy, tax and advisory services, and are experts at simplifying complexity – we're particularly well-known for working with large, high-profile businesses with challenging issues in fast-moving and highly technical areas.

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At a glance

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We offer comprehensive tax compliance and advisory services to a range of clients, both in the UK and globally, helping them find their way in the increasingly complex world of tax.

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Read more

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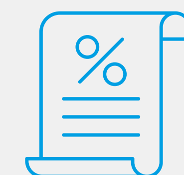

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We can ensure that your VAT risk is assessed and managed, and that your VAT recovery is optimised. We can also provide advice and compliance services on other indirect taxes, such as Insurance Premium Tax, Customs duty, and Air Passenger Duty.

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HMRC is increasing the number and scope of tax investigations into both individuals and businesses, covering all aspects of potential underpayments of tax, including offshore investments, personal and corporate Self Assessment Tax Returns, PAYE and NIC compliance and VAT.

If an issue arises, our trusted advisors will match the right specialists with your needs to provide you the necessary support – whether for a routine HMRC enquiry or a more complex investigation.

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