

**Bloomsbury Professional  
Family Law Conference**

**Tax on Divorce**

**Sofia Thomas CTA, ATT**

November 2020

 @taxsofia

[www.sofiathomas.co.uk](http://www.sofiathomas.co.uk)



**SOFIA THOMAS**

# Agenda

HMRC powers

Main tax on divorce  
areas

CGT Changes

Impact of COVID-19

Making Tax Digital



Corporate report

# Current list of deliberate tax defaulters

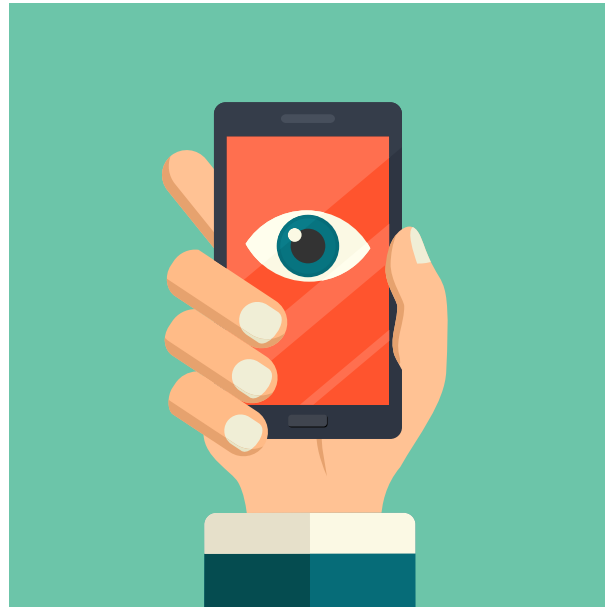
Updated 16 September 2020



- ✓ Name
- ✓ Address
- ✓ Nature of business
- ✓ Amount of penalties
- ✓ Any other details that HMRC considers necessary in order to make the persons identity clear



Connect



Social Media



Local authorities

# ‘Spouses know where the bodies are buried’

## Report tax evasion

Report someone to HM Revenue and Customs (HMRC) if you think they’re evading tax.

Don’t try to find out more about the tax evasion or let anyone know you’re making a report.

For example, they might be:

- not telling HMRC about tax they owe (for example on business profits)
- keeping business ‘off the books’ by dealing in cash and not giving receipts
- hiding money, shares or other assets in an offshore bank account (‘offshore tax evasion’)

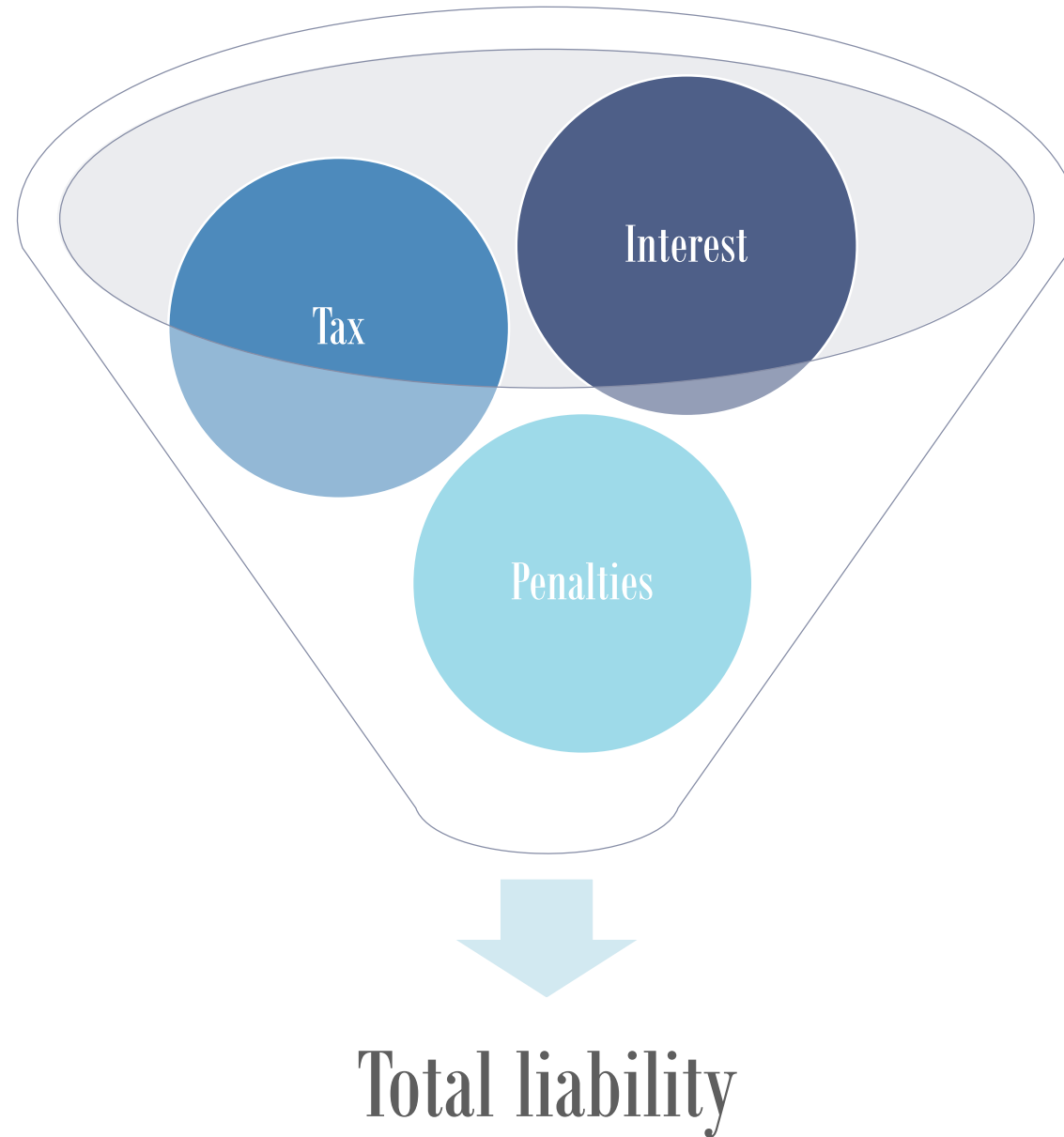
[Start now >](#)

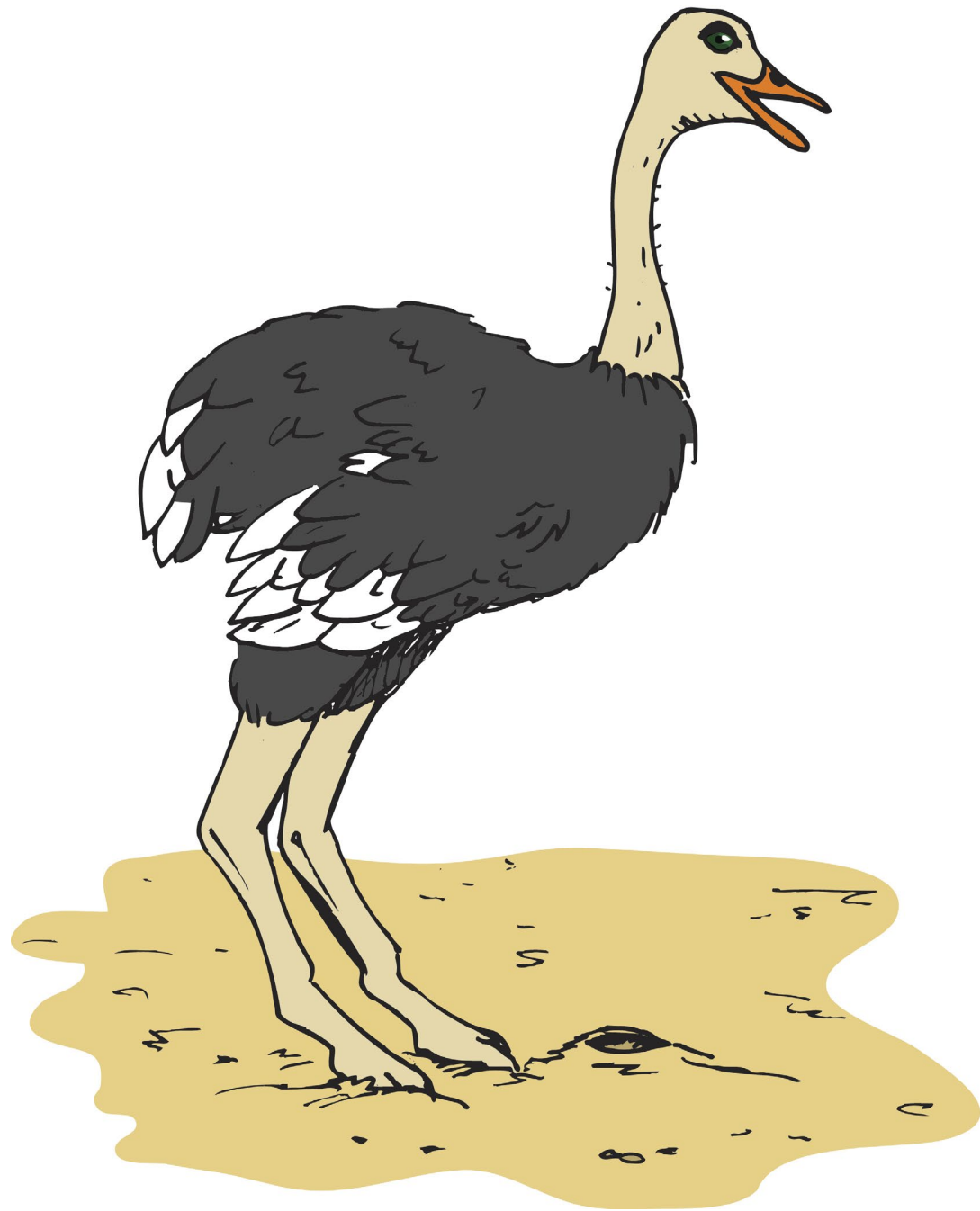
on the HMRC fraud hotline  
report form



# Tax Debts

- Never expire
- Always accruing interest
- 3<sup>rd</sup> party debt enforcement

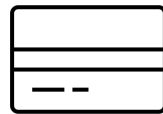






# Tax Risks



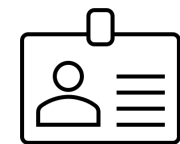


When do we  
need to think  
about tax?

Value something



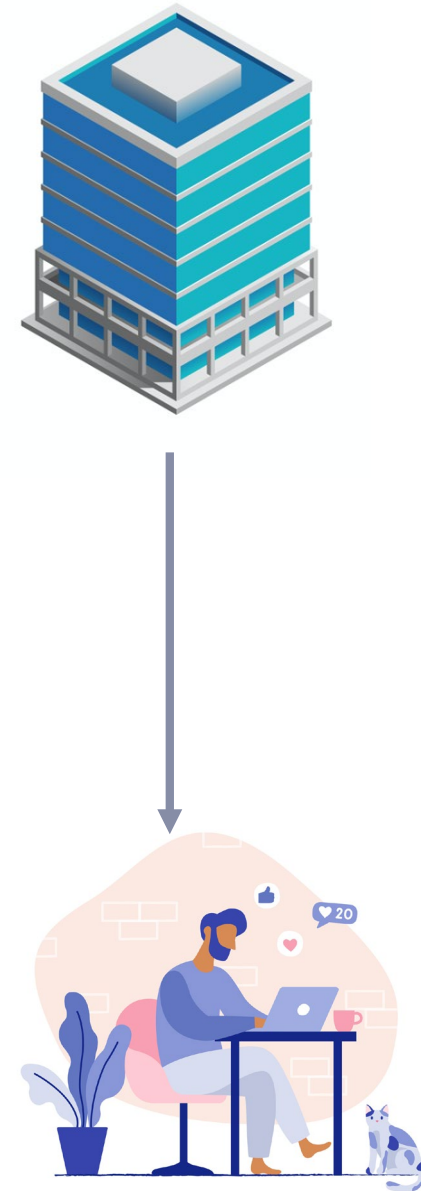
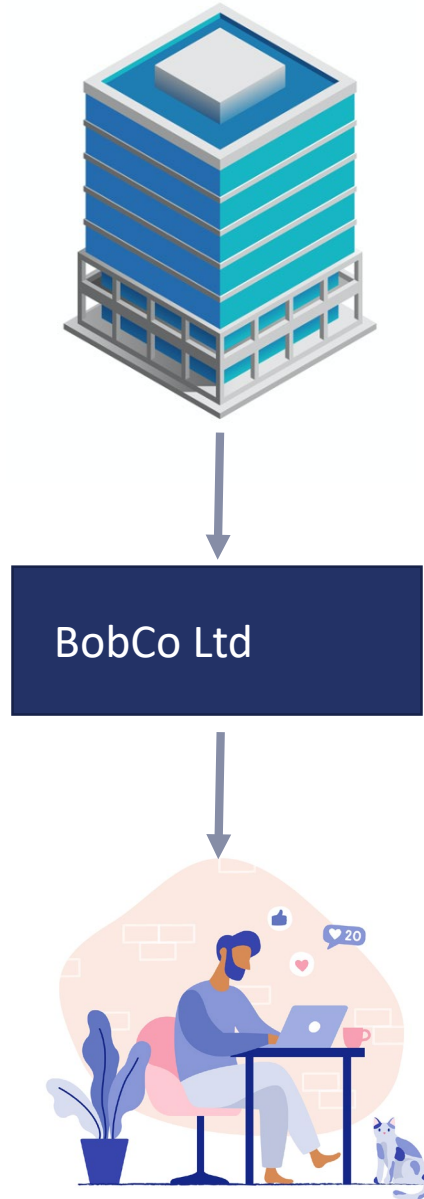
Move something



IR35

Private sector – will apply from April 21

Values



# Buy to Let Income



Yellow	
Rental profits	15,000
Tax at 40%	6,000
Less: 20% tax credit	(1,600)
Tax payable	4,400

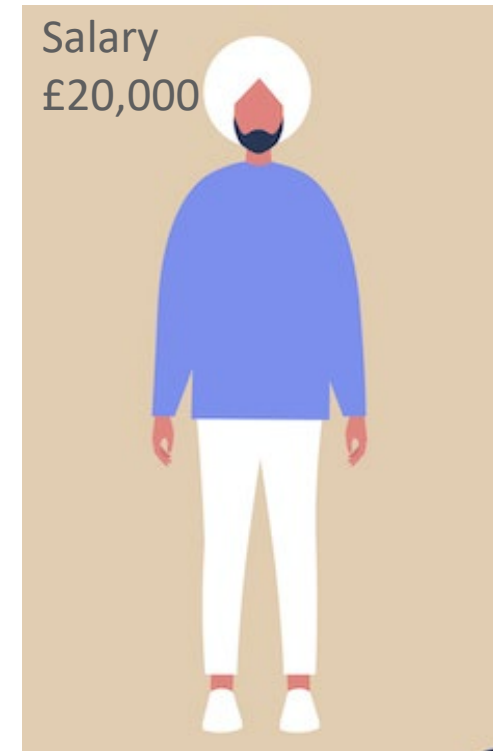
Net rental income £2,600

Effective tax rate 62%

Blue	
Rental profits	15,000
Tax at 20%	3,000
Less: 20% tax credit	(1,600)
Tax payable	1,400

Net rental income £5,600

Effective tax rate 20%



FIGURES	100%	50%
Rental Profits	30,000	15,000
Mortgage interest	16,000	8,000
Profit after interest	14,000	7,000

# Value



# What's Changed?

- CGT is payable within 30 days from date of disposal on all UK property (6 April 2020)
- Main home relief only extends for 9 months once the person has left the home (6 April 2020)
- Entrepreneurs relief is now called Business Asset Disposal Relief (BADR) and is only available on gains on up to 1m (20 March 2020)
- HMRC guidance updated to say Holdover relief unlikely to be available on divorce (2020)
- Penalties of up to 200% of tax due for failure to declare offshore income (2018).
- Increased focused on small businesses by HMRC to close the Tax Gap (2019)



# Residential Property

**Rates:** 18% or 28%

**Payment date:** 30 days after disposal

**Reporting:** 30 days after disposal

**Reliefs:** PPR Relief, rollover relief

# Non-Residential Property

**Rates:** 10% or 20%

**Payment date:** 31 Jan following the end of the tax year

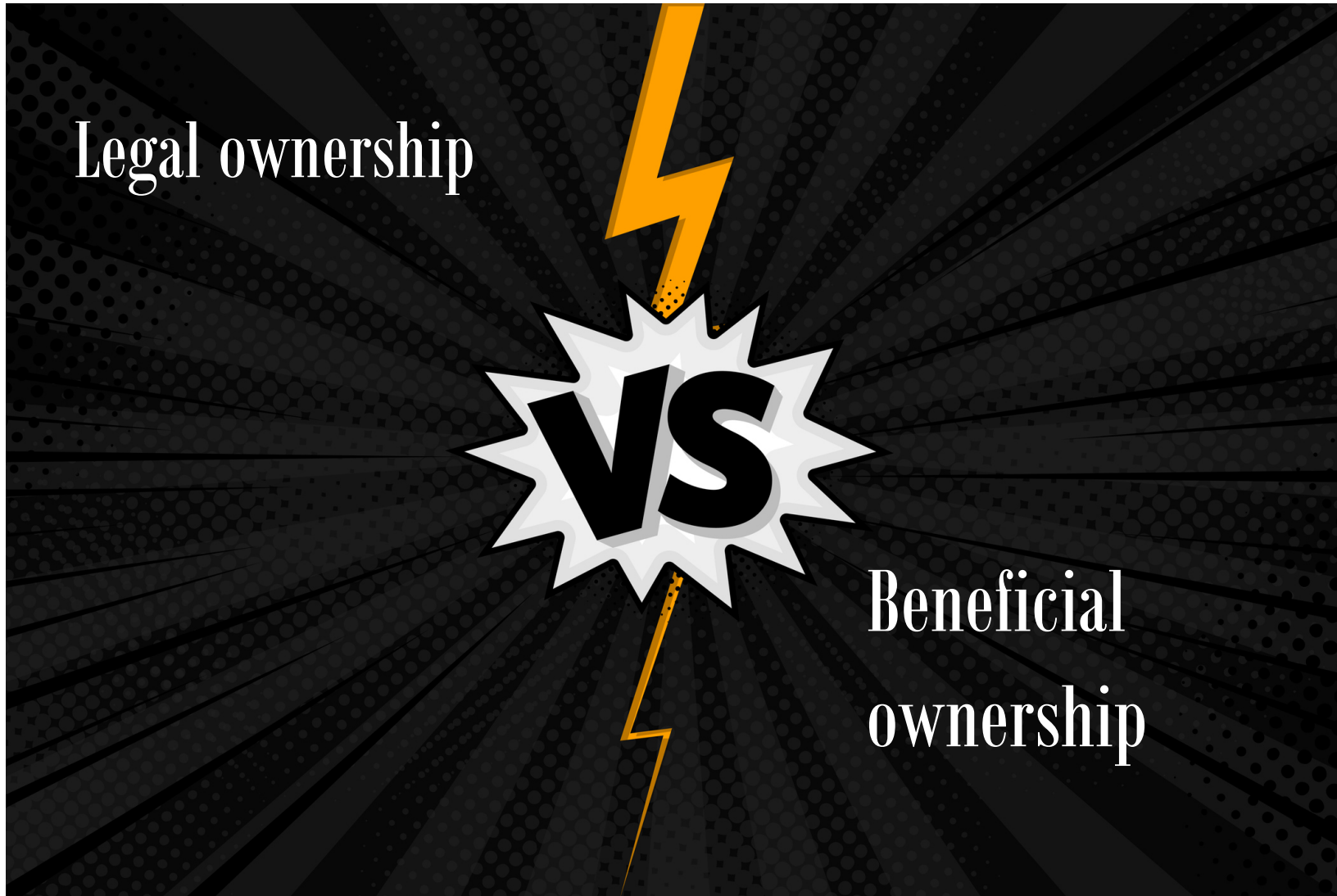
**Reporting:** 31 Jan following the end of the tax year

**Reliefs:** BADR Relief, rollover relief, investor relief, holdover relief (exceptional circumstances)

Legal ownership

**VS**

Beneficial  
ownership





# CGT on UK properties



Must pay and report from when the transfer is legally enforceable.

- ◇ Date of transfer
- ◇ Date of order
- ◇ Date of decree absolute

Open consultation

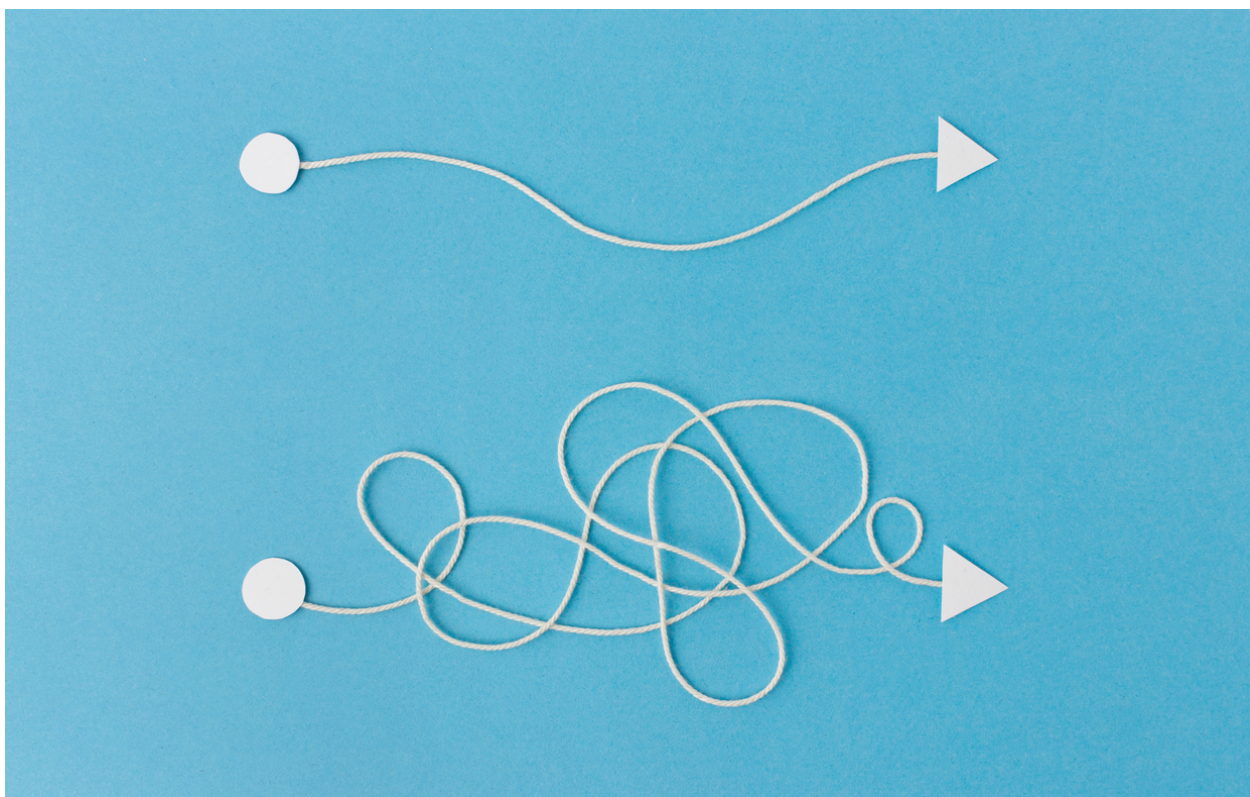
# OTS Capital Gains Tax review call for evidence and survey

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Published 14 July 2020

Last updated 8 September 2020 — [see all updates](#)

From: [Office of Tax Simplification](#)



# COVID-19

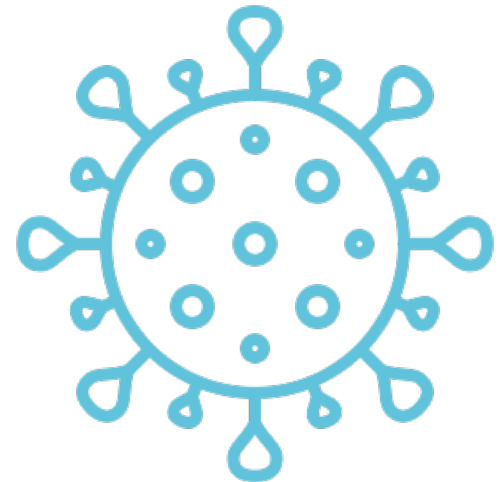
## Businesses

- Businesses Furlough (possible repayments)
- VAT for Q2 due March 21

## Individuals

- Grant 1 and Grant 2
- Late payment of payments on account
- Increased cases of people claiming Universal Credit
- Increase of child benefit claims

Cash flow





Tax liability £5,000  
31 Jan 20 5,000 for 2018-19

Payments on account  
£2,500 Jan 2020 for 2019-20  
£2,500 July 2020 for 2019-20

Tax Liability £6,000  
Balancing liability 1,000

Payments on account  
£3,500 Jan 2021 for 202-21  
£2,500 July 2021 for 202-21

April 2018

37,500

April 2019

Jan 2020

April 2020

Jan 2021

April 2021

Earnings £35,000

Earnings £40,000

Earnings £10,000



HM Revenue  
& Customs

**Making tax digital**





# Low Tax Risk

- ◇ No business in the marriage
- ◇ No investment properties
- ◇ Both living in the UK
- ◇ Been living in the main home or moved out without nine months of sale
- ◇ No undisclosed income
- ◇ Pensions under the Lifetime Allowance (1.073m)



# Medium Tax Risk

- ◇ Assets being transferred in the tax year of separation
- ◇ One party or both parties are non resident
- ◇ One or both parties have been out of the main home for over 9 months
- ◇ Self employed or company owner
- ◇ Joint accountant
- ◇ Purchasing properties during the divorce



# High Tax Risk

- ◇ Joint shareholders of a company
- ◇ Multiple investment properties
- ◇ Undisclosed income in the UK
- ◇ HMRC investigations
- ◇ EIS/SEIS shares
- ◇ Pensions over the Lifetime Allowance



# When might you need a tax expert?

- Main home
- Investment properties – sharing assets
- Pension sharing
- Business, transfer of shares
- Selling of assets

Future tax  
implications  
sale or transfer

Tax implications of  
a past action

- Previous planning
- Tax avoidance schemes (DOTAS)
- Loan Charges
- R&D Tax Credits
- HMRC Investigations

- Incorrect filing of tax returns
- dividends reported and not paid
- Annual allowance charge not computed
- Failure to declare income (overseas income)

Correcting previous  
positions

Quantifying net  
values

- Net income of sole trader/partnership
- Net value of rental income (interest relief restrictions)
- Allowances
- Possible reliefs
- Net gain

Questions



**Tax on divorce short guide  
(free download)**



<https://www.sofiathomas.co.uk/resources/tax-guides/tax-considerations-on-divorce-a-short-guide-for-family-solicitors-2020-21/>

**Checklists  
(free download)**



<https://www.sofiathomas.co.uk/resources/checklists/tax-on-divorce-checklists-for-family-law-professionals-2020-21/>

**Book  
Tax Implications of  
Family Breakdown**



<https://www.bloomsburyprofessional.com/uk/tax-implications-on-family-breakdown-9781526512345/>

**Details included in the list of deliberate tax defaulters**

<https://www.gov.uk/government/publications/publishing-details-of-deliberate-tax-defaulters-pddd/details-included-in-the-list-of-deliberate-tax-defaulters>

**Current list of deliberate tax defaulters**

<https://www.gov.uk/government/publications/publishing-details-of-deliberate-tax-defaulters-pddd/current-list-of-deliberate-tax-defaulters>

# Tax Computation for blue and yellow

FIGURES	100%	50%
Rental Profits	30,000	15,000
Mortgage interest	16,000	8,000
Profit after interest	14,000	7,000

Yellow		
Salary		50,000
Rental profits		15,000
Total		65,000
Less: Personal allowance		(12,500)
Taxable		52,500
	37,500 @20%	7,500
	15,000 @40%	6,000
Total Tax		13,500
Less: 20% tax credit		1,600
Tax Liability		11,900
Net rental income		2,600
Effective tax rate		0.63

Blue		
Salary		20,000
Rental profits		15,000
Total		35,000
Less: Personal allowance		(12,500)
Taxable		22,500
	22,500.00 @20%	4,500
Total Tax		4,500
Less: 20% tax credit		1,600
Tax Liability		2,900
Net rental income		5,600
Effective tax rate		0.20

# Coffee?

Thank you so much for attending the session today.

I hope you found it useful.

If you'd like to know more about me and how I work please get in touch and I'd love to have a coffee with you (virtual or otherwise)

[sofia@sofiathomas.co.uk](mailto:sofia@sofiathomas.co.uk)

Or if you'd like to read about the firm and our services please visit

[www.sofiathomas.co.uk](http://www.sofiathomas.co.uk)

