paylesstax

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Do you want to pay less tax?

This year's finance bill has taken the UK tax code up to just short of 10,000 pages. The UK now has the most complex and lengthy tax legislation in the World! This means that it is getting increasingly difficult to manage your tax affairs efficiently and avoid the many pitfalls. It also provides many opportunities to save significant amounts of tax with careful planning.

The increasing amount of tax law is making it ever more impossible for businesses and individuals to keep up to date and abreast of the tax changes. The growing complexities are not only creating tax traps for the unwary, but also tax saving opportunities that many are overlooking.

We aim to rectify this by ensuring that we highlight some of the tax traps that can be costly if you are not aware of them and to give you an idea of possible tax saving opportunities in certain situations.

As everyone's circumstances are different we would be delighted to talk to you in detail about how the rules apply to you and how you could save tax.

We want to help you pay your fair share of tax. . . and not a single penny more!

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Holiday homes could save Tax!

If you are looking to invest in residential property, have you considered renting it out as a holiday home? There can be benefits providing certain conditions are met. The rental income would be treated as earnings for pension purposes allowing you to pay higher pension premiums into your policy. It may be possible to roll over Capital Gains Tax in some situations into the property. When you come to sell the property the Capital Gains Tax may well be significantly lower than had the property just been rented out as someone's home.

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Come clean with HMRC?

HM Revenue and Customs (HMRC) has successfully obtained details of accounts held offshore with some of the major banks, and are approaching other banks for similar details. As a result HMRC is offering reduced penalties of no more than 10% for taxpayers who now come clean and declare interest on offshore accounts. HMRC must be made aware of the intention to disclose by 22 June 2007.

There is a common myth that monies held offshore are not taxable in the UK. Unfortunately this is generally not the case and for most people living in the UK they need to declare this income, even if it is never touched. The situation is not that simple and advice should be taken.

Whilst the initiative is aimed at those with previously undisclosed offshore accounts, all individuals and companies are being given a one off chance to disclose any errors or irregularities from the past twenty years.

Maximise Tax Relief on Business Property

Tax relief on the cost of a property is often not possible until the property is sold. However it may be possible to get tax relief for part of the cost of a commercial property much earlier. The sorts of properties that can attract the greatest tax relief include air-conditioned offices, nursing homes, caravan parks and hotels.

You may wonder how this is possible. Well, within many buildings there are various items of plant, such as radiators, phone points and emergency signs. These are known as "integral plant", on which tax relief may be claimed each year. And you could be eligible even if you rent out the property to other parties.

Extreme care is often now required whenever buying or selling a commercial property as careful planning can save thousands in tax for both the buyer, and the seller. It may even be an important part of the price negotiations.

If a property is to be sold and no capital allowances on integral fixtures have been claimed to date, then it may more beneficial for the seller not to claim the allowances in order to negotiate a higher selling price. The purchaser may be able to claim allowances on a much higher figure than the seller ever could.

The rules regarding capital allowances has become a complicated area and interpretation of the legislation has changed a number of times. Therefore many claims on buildings are now possible that simply were not in the past.

From April 2008 the rate of relief available for tax will reduce from 25% to 10%, meaning that action needs to be taken now for the greatest tax savings. Please contact us if you are interested in discussing this further.

HMRC wake up to self employed working from home

HM Revenue and Customs (HMRC) recently relaxed its' interpretation of what expenses are allowed when self employed individuals work from home.

Despite the relevant law coming into effect in 2005 and the Revenue's new guidance referring to a case in 1975, the relaxation of their views has only recently been published. Whilst HMRC's manuals are merely their interpretation and cannot be relied upon in court, the changes are still welcomed.

What does it mean for the self employed? Well for those merely writing up their books at home, then a claim against profits of up to £104 can be considered acceptable under the new HMRC guidance. Higher claims may well be possible depending upon the full facts, including time spent writing up the records and the amount of records required for the business.

Where part of the home is used solely for business purposes for a period of time, then HMRC's guidance does state that appropriate proportions of household fixed costs can be claimed. The guidance includes household insurance, council tax, mortgage interest, rent, repairs and maintenance. The examples included in the guidance even suggest that the costs could include exterior painting of your home, and re-decoration costs of the rooms used for business purposes.

Running costs for the home can also be considered, even for minor business use, including cleaning costs, light and heat, telephone, broadband and metered water charges. The guidance even indicates that a "... photographer working from home using specialist studio lighting will have a much higher business expense for electricity than a trader writing up records..."

Obviously care is needed and claims will very much depend upon individual circumstances. If you would like us to consider your position in detail in light of the new guidance please don't hesitate to contact us.

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A full state pension may cost you less now!

The Government published a white paper on 25 May 2006, which included a proposal to reduce the number of qualifying years to obtain a full state pension from the current 44 years to 30 years from 6 April 2010. The proposal is part of the pension's bill currently going through parliament.

Individuals who have made voluntary National Insurance Contributions since 25 May 2006 to make up for gaps in their pension record based upon the current 44 years may be able to claim a refund. Those currently reviewing their state pension position may wish to take account of the new proposals before making any voluntary contributions.

The problem with training costs

A couple of recent tax cases have highlighted the problems that can arise where someone is required to foot the bill for training costs themselves.

An employee of an NHS Trust claimed for tax relief on £9,000 in training costs she had incurred herself. The training was considered essential and desirable for her employment. However the claim was disallowed as the costs were not incurred "in the performance of her duties".

The problem can not only affect employees but also the self employed. The second case was a self employed English tutor, where the training resulted in a new qualification. The costs were deemed to be capital and therefore not allowed against his profits.

Strangely had the training costs been paid for by the employer and a salary sacrifice arrangement been in place these problems would not have arisen. A correctly set up and documented scheme could be a way of saving tax and national insurance for both the employee and employer. The self employed may consider incorporating to achieve the same result.

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Are you maximising use of your children's allowances??

All individuals, including children, have an annual exemption for Capital Gains Tax (£9,200 in the tax year 2007/08). Investments or assets where only capital growth occurs may well be a tax efficient way of parents passing funds to their children, and ensuring the use of children's allowances are maximised. A Bare Trust arrangement is one way of ensuring control is retained as far as possible.

Care is required, because if a child's income exceeds £100 per annum from monies or an investment received from their parents, then the income may well be taxable on the parents, rather than the child.

VAT - Make your life simpler

Have you considered using either or both the Annual Accounting and Flat Rate Schemes?
Annual accounting is just that - you will only have to complete one VAT return each year and this has to be submitted 2 months after your tax period has ended. You will have to make interim payments during the year (usually nine) and a balancing payment when your return is completed. Admission to the scheme is subject to conditions including taxable turnover of less than £1.35m. **The Flat Rate Scheme can make completing your VAT Return even simpler.**

How does it work? You multiply your total VAT inclusive turnover for the tax period by the percentage relevant to your business type and this is the amount you pay, there is generally no claim for input tax. The only adjustment you would ever make was if you bought an expensive capital asset - if it cost £2,000 or more, including VAT, you can claim the input VAT on this item.

The flat rate scheme is not right for everybody, as some of the percentages set by the government result in more VAT being paid. However for some businesses there can be both an administrative saving as well as a tax saving. Admission to the scheme is subject to conditions including taxable turnover of less than £150,000.

Separation and Divorce - tax traps!

If you are in the unfortunate position of splitting up, whether married or civil partners, then tax may be the last thing on your mind. However, overlooking the issues could add unwelcome tax bills to the costs of splitting up.

Separation has the greatest impact on Capital Gains Tax, but there can be other issues. Before a married couple or civil partners separate, all transfers of assets between them are usually free of Capital Gains Tax, irrespective of what monies pass between them. This can be very useful for saving overall taxes on the couple.

However once a spouse leaves the family home, then this tax exemption is lost after the end of the tax year in which they separate. This can result in an unexpected tax liability on the eventual sale or transfer of the property, which may be alleviated by a Revenue concession, but not always.

Prior to the decree absolute being issued (or final order for civil partners), transfers of assets between the couple will be treated as a sale at market value, irrespective of the monies that change hands.

For Inheritance Tax an estate can normally be left to the surviving UK spouse free of Inheritance Tax. This exemption is lost when the decree absolute or final order is issued. However, with careful planning, transfers after this date may not be a problem. And finally, Wills should never be forgotten as these automatically become invalid on divorce (as do many on marriage).

If you have any concerns about tax and would like to plan to make sure it does not become an added cost, please don't hesitate to contact us.

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Shattering the tax myths - State pensions

Tax myths are creating problems in an already confusing tax system. In each edition we will unravel a well known tax myth and give you the truth. **The myth for this edition is that "state pensions are not taxable".** Unfortunately this is not true. The state pension is taxable and is paid gross. If it is the only source of income, then because in most cases it is at a level below the personal allowance then there will be no tax payable. However should you have other income, as well as your state pension, then tax may need to be paid over. Where there is a private pension as well, then any tax payable may be collected by adjusting your tax code. Tax returns may be required where this is not possible.

Two family properties are a tax problem

Whenever a property is sold Capital Gains Tax needs to be considered. We're each entitled to have one property classed as our main residence which, if it meets a number of criteria, can be sold free of Capital Gains Tax. Married couples and those registered under the civil partnership act are only entitled to one main residence per couple. Hence if two properties are owned, then only one will be classed as a main residence and Capital Gains Tax will be payable on the sale of the second property.

However with careful planning and use of an election within two years of acquiring the second property a substantial amount of Capital Gains Tax on the second property could be wiped out.

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Significant Inheritance Tax savings can still be made

There has been a lot of media interest recently regarding a case earlier this year (Phizackerley) where the wife didn't work. The media suggested that families could face higher Inheritance Tax bills as a result. Whilst the Will planning in this case seems to have been carried out correctly, the implementation was not and other solutions would have faired better.

The case highlighted an issue that has been around for a long time and is widely recognised. Despite the case, Nil Rate Band Discretionary Trusts are still worth considering. They can save up to £120,000 in Inheritance Tax per couple, providing they are set up and administered in the correct way.

Our 'Inheritance Tax Healthcheck' could be just the starting point that you need. It will tell you whether you have a potential Inheritance Tax liability and, if so, provide recommendations to address it. If you are interested please do not hesitate to contact us.

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Rewarding employees tax efficiently

Your key employees are the key to the success of your business. It is therefore essential that you keep them highly motivated. Research shows that the way employees are rewarded makes a critical difference to their levels of motivation and productivity.

Bonuses and dividends are the traditional way of rewarding key employees. But there are now other alternatives that can lead to far higher levels of motivation and productivity - and which, at the same time, can also be more tax efficient than bonuses and dividends. Those alternatives therefore have the potential to improve motivation and productivity levels, at the same time as reducing costs.

Please contact us if you are interested in more tax efficient ways of rewarding your key employees in order to increase productivity and reduce costs.

We can help

Unfortunately the UK tax system is getting increasingly complex… resulting in an increasing number of tax pitfalls for the unwary. The good news though is that there are also many opportunities to pay much, much less tax… and in some cases none at all.

The key message is to seek advice early. Many tax planning opportunities are only available if put in place before undertaking a transaction, such as the purchase of a property.

If you would like to discuss ways in which you may be able to make tax savings then please do not hesitate to contact us.

We would be delighted to advise you on any of the issues identified in this edition of "Pay less tax."