Tax Newsletter

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Newsletter June 2008

Alistair Darling has been cornered yet again by various lobby groups and we have another significant concession to report this month - his latest attempt to still backbench rumblings over the withdrawal of the 10% tax band. You may also have picked up from the press the controversy over MPs expenses paid with no receipts! We have added an article this month that sets out certain expenses that HMRC will now accept can be paid without evidence - an attempt, maybe, to level the playing field?

We have added a commentary on the tax concession for individuals who own a property abroad through a company, an article about the importance of inheritance tax planning, details of the new fuel rates for employer-provided cars and finally a few miscellaneous changes to tax regulations, including a 50% increase in a particular tax-free allowance.

Our next newsletter will be published on the 3 July 2008.

Pass it on!

If you know anyone who might be interested in our newsletter feel free to forward this copy. If you have received a forwarded copy and would like to subscribe at no charge, just email taxnewsletter@armstrongwatson.co.uk stating "subscription request" in the subject.

Back to top

Tax Planning

Welcome to our regular section of the newsletter. This section gives a brief description of current “hot topics” and tax saving ideas. If you want a Tax Consultant to contact you about one or more of these please email taxnewsletter@armstrongwatson.co.uk stating which particular idea or ideas you are interested in. Here are a few of our tax strategies. More ideas will be added soon.

Tax efficient cash extraction from companies – makes use of discretionary trusts. Ideal for companies with large cash balances surplus to working capital needs (> £100,000), where the main shareholder or shareholders are considering selling or retiring, or where rewarding key employees is desired. It also offers a cheap mortgage for purchasing buy-to-let properties.

Income tax and NIC savings on car benefits – this is a plan to replicate the positives of employer-provided cars whilst eliminating the income tax and NIC charges. Ideal for fleets of five cars or more. Do you provide cash allowances instead of company cars and are you aware of the risks you face as an employer by doing this? If so then our solution is worth considering.

Share options – want to reward key employees with shares in the future? Why not make use of HMRC approved EMI share options. Such options carry income tax and national insurance advantages over unapproved options or outright gifts/sales at an undervalue. The exercise of the options may also bring a substantial corporation tax deduction for the company. An extremely flexible form of employee reward and ideal for a future Management Buy Out team.

Paying tax at 40% on your business profits? – have you considered incorporation? If disclosure is a concern then an unlimited company may be preferable. We also offer an alternative to full incorporation, email to find out more.

Employment Taxes (PAYE, NIC, expenses & benefits) are complex and notoriously difficult to administer. HMRC carries out routine inspections and, if they find evidence of non compliance, will seek a settlement covering six years, often on a grossed up basis, to include interest and penalties. The cost, even for a seemingly minor innocent error, can be substantial. Armstrong Watson can carry out a Compliance Review aimed at uncovering areas of non compliance and rectifying them, meaning that risk of a large settlement can be removed, and the inevitable visit from HMRC can be faced with confidence.

Inheritance Tax – Following announcements made in the 2007 Pre Budget Report, the second spouse to die can now benefit from the Nil Rate Band of the first spouse. This was welcome news but there are still many issues to be addressed when drafting your Wills and it is important to ensure that your Wills are efficient for Inheritance Tax purposes and also for Care Home Fee planning purposes. We can assist you in drafting your Will to ensure that it is not only efficient but that your assets pass to your loved ones as you intend. If you have taken advice in the past regarding your Wills, we would also recommend that you have these reviewed again following the changes in the legislation.

Inheritance Tax gifts during life – if you have an estate that will be subject to Inheritance Tax then controlling the growth of your estate is vital to avoid paying too much Inheritance Tax. Every individual can give away up to £3,000 every year (and £6,000 if you haven’t used the allowance in the previous year). However, you can also give away your excess income as well, which can restrict the growth of your estate further - although care needs to be taken when considering this option.

Tax on 2nd Properties – if you own a 2nd property you need to be aware that there will be Income Tax, Capital Gains Tax and potentially Inheritance Tax liabilities over the life of the property. We can advise you on the most tax efficient way to hold your 2nd property to achieve your objectives.

Capital Gains Tax - do you own assets which are sitting at a large gain? The CGT regime from 6 April 2008 has changed drastically with the introduction of a flat 18% rate and a new Entrepreneurs Relief. If you want to know more about how the change has affected you please contact us.

Click here for a call back from our office regarding this article. **Back to top**

The unwelcome legacy

Property prices may well have peaked but, for many of us, our homes are our biggest assets. The rise in property values over recent years has brought with it a sting in the tail when we finally get laid to rest. That is the threat of an Inheritance Tax bill for those left behind.

Everyone with assets worth over £312,000 is a potential Inheritance Taxpayer and, in our experience, people often do not realise just how much they are worth financially. If you take a pencil and a piece of paper and write down the estimated value of all of your assets – house and contents, savings, investments, jewellery and often the proceeds of life insurance policies too – then you might just get a surprise.

Last year there were some limited changes to the tax so that widows and widowers could 'inherit' any unused proportion of the tax free band on their spouse's death. These changes were welcome but did nothing at all for single people. Some commentators suggested that the Government had doubled the Inheritance Tax threshold – that most certainly did not happen. Many couples had in any case already put in place Wills which resulted in much the same effect as the changes.

Inheritance Tax is sometimes referred to as a voluntary tax. That is going a bit far but there are certainly plenty of things you can do to reduce or avoid the tax.

Since the tax normally applies only to assets held at death or given away within seven years of death the strategy might seem clear. Just make sure that you make gifts when you are young and healthy enough to expect to survive seven years and all will be well. Unfortunately not. Quite apart from the fact that assets given away are not usually controlled by you any more and might be subject to loss through bad luck, mismanagement or divorce by the next generation, you also have to be able to live yourself. If you continue to benefit from the use of the asset given away, then it doesn't work for Inheritance Tax purposes anyway.

With a house, for instance, this would mean paying a full rent. Not many people fancy paying a rent for their own homes and frequently this also results in a Capital Gains Tax problem anyway.

Planning should be a little more sophisticated than simply passing on assets. Certainly that may feature but make it part of a plan which takes account of your anticipated needs. The review should also cover the provisions of your Will and any pension provision you have.

In summary, Inheritance Tax is a long term potential problem and often requires serious planning over a number of years to be fully effective. Don't let the Chancellor be a major beneficiary of your estate – start thinking about it now.

Click here for a call back from our office regarding this article. **Back to top**

Advisory Fuel Rates

The advisory fuel rates for employer-provided cars will change with effect from 1 July. These rates are used where private fuel is not supplied by the employer, allowing the employee to reimburse private use or allow the employer to repay business use at rates that will not trigger an income tax or NIC liability. The rates are also accepted for VAT purposes.

From 1 July 2008 (figures are: petrol/diesel/LPG):

1400cc or less: 12p/13p/7p

1401cc to 2000cc 15p/13p/9p

Over 2000cc 21p/17p/13p

If you have a fleet of vehicles and want to know of a tax-efficient alternative or if you allow employees to drive their own cars for business and are concerned about the new corporate manslaughter legislation, email us or use the more information link below.

Click here for a call back from our office regarding this article. **Back to top**

Loss of the 10% tax band - a further remedy.

In order to still complaints from its backbenchers the Government has announced two changes to its taxation of earnings for 2008-09. The changes attempt to compensate taxpayers on low earnings who were disadvantaged by the loss of the 10% starting rate of income tax.

The additional changes are:

1. The basic personal tax allowance has been increased by £600 to £6,035, and
2. The income limit where earnings will be taxed at the 40% higher rate has been reduced from £36,000 to £34,800.

The effect of these changes is to reduce the income tax bill for basic rate tax payers by £120 this year. If you pay your income tax by PAYE as a deduction from your salary, the changes to your tax code will be effective from September 2008 when you could pay up to £60 less tax. The ongoing tax reduction will be £10 per month to the end of the tax year.

As the income limit at which earnings are taxed at the higher rate has been reduced, if you are a higher rate tax payer there will be no change in your total tax bill this year.

Previous changes to address this issue included adjustments to tax credits. We are also promised further assistance for disadvantaged low income groups to be announced in the pre-budget report Autumn 2008.

The change also means that the tax and NIC bands are out of alignment again. For those of you paying yourself a small salary and the remainder of your income extraction by way of dividend, the change has next to no impact. You can either increase your salary by £600, reduce the dividend by £600, pay a little NIC but gain a little more corporation tax relief (net effect minimal) or stay as you are.

Click here for a call back from our office regarding this article. **Back to top**

Claiming expenses with no receipts!

In certain circumstances it may be possible to claim expenses from your employer and not be required to include a formal receipt.

New guidance has been published by HMRC which empowers employers to set scale rates for particular expenses. Where these scale rates are agreed employees can claim them without the normal requirement to produce a receipt.

Examples illustrated by HMRC's web site include subsistence payments and cleaning of protective clothing or uniforms.

The following notes outline some of the issues that need to be considered when setting scale charges that will qualify under this concession.

- It is only possible to claim the scale charge when the underlying expense has been incurred. For example if a daily subsistence allowance was paid, irrespective of the employee actually incurring subsistence expenditure every day, HMRC would treat this as a payment of earnings and tax it accordingly.
- HMRC intends that scale rate payments only cover expenses which are widely incurred and for which it is often difficult to get receipts.
- Scale rates should be set at "modest" levels - at an amount that will be enough to cover the relevant expense.
- Scale rates must be agreed with HMRC before any payments are made to employees.

HMRC makes suggestions for a process of sampling in order to quantify the level at which scale rates are set.

If your reimbursements to employees are significant it may simplify your accounting if you consider introducing scale rates for appropriate expenses, we can help.

Click here for a call back from our office regarding this article. **Back to top**

Owning an overseas property through a company

To accommodate non-UK tax considerations, a growing number of UK taxpayers have been advised to purchase property abroad by using a company to make the purchase. Potentially this created a risk that owners who were directors or shadow directors of the company, would be assessed on their private use of the property as a benefit in kind.

The Finance Bill 2008 now includes legislation that exempts most owners from this potential benefit in kind charge.

To qualify for the exemption the following conditions must be met:

1. The property is owned by a company owned by individuals. If the shares in the company are owned by a family trust the exemption will not apply
2. The property is the company’s only or main asset
3. The company’s only activities are those that are incidental to its ownership of the property
4. The property is not funded directly or indirectly by a connected company

The Finance Bill 2008 has clarified that exemption is extended to include ownership by certain groups of companies, and that letting of the property to third parties will not disqualify application of the exemption.

Please note that this exemption only applies to overseas properties. If you own a UK property through a company a potential benefit in kind charge will still apply.

Click here for a call back from our office regarding this article. **Back to top**

HMRC - 50% increase in tax free allowance, and other updates

Working from home allowance

You may be interested to learn that HMRC has increased the tax free allowance that employers can pay their employees if they are required to work from home. The allowance is intended to compensate employees for the additional costs of home working, heat and light etc. From 2008-09 onwards the allowance has been increased to £3 a week. (Previously £2 per week)

If by chance you work from home and your employer does not pay you the allowance, you may be able to make a claim for the cost of running a home office. Unfortunately the present agreed weekly allowance is still £2 per week - HMRC have not yet confirmed that they will allow a similar 50% increase. However it is reasonable to assume that this would apply.

In both cases if it can be demonstrated that actual additional costs of home working are more than £2/£3 per week, employers could pay more than the £3 allowance and un-reimbursed employees may be able to claim their actual costs.

Unfortunately the criteria which apply to the tax free payment from employers is less restrictive than the rules which apply to a claim from employees who have to meet their own homeworking costs. If you would like more information on this issue please call.

Payments on account from 5 April 2009

Presently self assessed tax payers are required to make a payment on account in January and July each year if their previous years self assessment exceeded £500.

This limit is to be increased to £1,000 and will be effective from 6 April 2009 (for tax years 2009/10 onwards). i.e. payments on account due January and July 2010.

Click here for a call back from our office regarding this article. **Back to top**

Tax Diary June/July 2008

1 June 2008 - Due date for corporation tax due for the year ended 31 August 2007.

19 June 2008 - PAYE and NIC deductions due for month ended 5 June 2008. (If you pay your tax electronically the due date is 22 June 2008)

19 June 2008 - Filing deadline for the CIS300 monthly return for the month ended 5 June 2008.

19 June 2008 - CIS tax deducted for the month ended 5 June 2008 is payable by today.

1 July 2008 - Due date for corporation tax due for the year ended 30 September 2007.

6 July 2008 - Complete and submit forms P11D return of benefits and expenses and P11D(b) return of Class 1A NICs.

6 July 2008 - Deadline for submission of new Tax Credit application for 2008-2009, if you want to secure a full years claim.

19 July 2008 - Pay Class 1A NICs (by 22 July 2008 if paid electronically).

19 July 2008 - PAYE and NIC deductions due for month ended 5 July 2008. (If you pay your tax electronically the due date is 22 July 2008)

19 July 2008 - Filing deadline for the CIS300 monthly return for the month ended 5 July 2008.

19 July 2008 - CIS tax deducted for the month ended 5 July 2008 is payable by today.

Click here for a call back from our office regarding this article. **Back to top**

DISCLAIMER - PLEASE NOTE: The ideas shared with you in this email are intended to inform rather than advise. Taxpayers circumstances do vary and if you feel that tax strategies we have outlined may be beneficial it is important that you contact us before implementation. If you do or do not take action as a result of reading this newsletter, before receiving our written endorsement, we will accept no responsibility for any financial loss incurred.

Armstrong Watson

15 Victoria Place, Carlisle, CA1 1EW

Tel: 01228 690100 Web: www.armstrongwatson.co.uk

Email: taxnewsletter@armstrongwatson.co.uk

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