paylesstax

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cba accountants

More u turns, or just on his Magic Roundabout?

Although Alistair Darling has only been in post as Chancellor since June 2007, he has already announced a number of reversals in tax policy in that short period.

In October 2007 the Chancellor announced sweeping changes to the Capital Gains Tax rules which would have a detrimental effect for many business owners. In January 2008 he announced a significant concession in the form of Entrepreneur's relief. He has had a rough ride with Non-Domiciles and subsequent changes.

More recently he has announced an increase to personal allowances by £600 to compensate basic rate tax payers for the loss of the 10% tax band announced in the 2007 budget.

Despite the slogan "Tax doesn't have to be taxing", these constant changes make it extremely taxing to stay up to date with the changes. We keep on top of the changes in order to identify for you the tax saving opportunities. In this edition of pay less tax we review what action you can take to save tax.

Don't ignore pensions

As personal pension payments are paid net of basic rate tax, they are affected by the recent fall in basic rate income tax. Although the reduction in the basic rate of income tax from 22% to 20% is to be welcomed, it does reduce how much the pension providers can reclaim from HM Revenue & Customs on your personal pension contributions.

For every £1 personal pension contribution the pension companies could previously reclaim around 28p, this has fallen to 25p from 6th April 2008. As the tax relief for higher rate taxpayers has increased, they will be able to increase their personal pension contributions by the 2% change without being any worse off. Basic rate tax payers may wish to consider whether to increase their personal premiums to ensure that the same amount overall goes into their pension.

Rather than company owners paying personal pension contributions into their own pensions, they may wish to let their company pay "Employer" pension premiums instead. This could save significant amounts of National Insurance for both the company and the individual.

Where an individual is employed but has no control over the business, they may wish to suggest to their employer a salary sacrifice scheme. Don't worry this doesn't mean that you give up your salary and work for free.

This is where the employee takes a reduction in their salary and the employer makes "Employer Contributions" into the employees' personal pension. The individual and the company make significant national insurance savings, which can be shared or all passed to the employee by way of increased pension premiums.

If the "normal salary" is to be sacrificed to make employer contributions, please talk to us. There are hurdles to jump and paperwork required in order to make sure the salary sacrifice scheme works. As with any planning care is required and financial advice should be taken.

● TOP TIPS ● TOP TIPS ● TOP TIPS ●

For someone of retirement age, you may wish to consider making a lump sum personal pension contribution. Too late you think? Not at all!

If we consider a lump sum personal contribution of say £8,000. The pension provider reclaims £2,000 from HM Revenue & Customs. If you are a higher rate tax payer then you would get a further £2,000 reduction in your tax bill as a result of the pension payment.

On retirement take the tax free proportion of the pension policy, in this case £2,500. Hence for a pension policy now worth £7,500 before investments etc, it could cost you as little as £3,500. Financial advice should be taken before undertaking any sort of pension planning.

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Plan your exit well

There are a number of ways that you can give up your business, including,

Selling it to a third party,

- Allowing the current management team or employees to buy it,
- Floating on the stock exchange,
- Passing it down to the next generation,
- Ceasing to trade and winding up the business.

Although each option has its' own practical and tax issues, the key to success is to start planning early. In fact the ideal time to consider the options is when you start up in business. However most business owners leave it until last minute and mainly consider a trade sale as their only option.

For this edition of pay less tax we will concentrate on passing it down to the next generation. The succession should be considered more of a process over a period of time, rather than a one off event, if the next generation are to have any chance of keeping the business going.

The transfer of any assets to someone connected to you, such as your children, is treated for tax purposes as a sale of the asset at market value, irrespective of whether you receive any money or not. Herein lies one of your dilemmas; assuming your children can afford it, do you want them to pay you for passing your business interests to them, or will you give it to them for free?

If you sell for cash, we would need to ensure that for the 12 months before the transfer you qualified for Entrepreneur's relief if the tax on the sale is to be reduced to around 10%.

Alternatively if you merely gift your business interest to our children, then you could (with their consent) roll over the gain and any tax, so that you don't pay it now, but your children become liable to it when they come to sell their business interests, although they may never pay it, depending on future circumstances.

You may prefer to retain some control over the business, which can be achieved by retaining shares yourself, or using a trust to hold the shares on behalf of your children. There are many other tax issues that should be considered when succession planning, including the fact that an interest in a family business will usually attract 100% relief from Inheritance Tax, however the cash received when selling the business interest will not.

● TOP TIPS ● TOP TIPS ● TOP TIPS ●

If your children can not afford to pay for your shares in the company, you require money, and there are funds available in the company, then you could consider selling the shares back to your company.

There are a number of hurdles to jump through and the payment can be treated in different ways for tax purposes. With careful planning substantial tax savings can be possible.

Shattering the tax myths!

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. Emigrating abroad is a complete minefield unless adequate preparation is made. In this edition we'll concentrate on the myth "I don't pay tax in the year I move abroad".

Unfortunately it is not that simple, if only it were.

First of all we need to look at whether you are UK domiciled, why you are leaving, how long you intend to be away, when you are leaving, the sources of your income and then consider the types of tax that we are concerned about. For example if we assume you are UK domiciled, leaving the UK permanently, and you've done everything to establish yourself as non resident, including notifying HM Revenue & Customs.

If you leave part way through a tax year, by concession you may not pay UK tax on some income, such as earnings from employment carried on wholly abroad for the part of the tax year after you leave the UK. This may not be so for other income. Capital gains realised in the tax year that you leave will still be liable to UK taxes, irrespective that they may occur after you leave. The simple answer to emigration is take advice early and plan carefully to maximise your tax savings.

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Get tax back on recent Capital Gains!

If you have suffered Capital Gains Tax in excess of 18% in the last three years you may be able to get some tax back. It is possible to now invest in an Enterprise Investment Scheme (EIS) and defer a gain made in the previous three years into the new investment.

Why should you do this I hear you ask? Well first of all the Capital Gains Tax previously paid over could be repaid to you. You also have the potential to receive 20% tax relief on the amount invested, subject to meeting certain conditions. That could be up to 60% immediate tax saving.

When you eventually come to sell the investment, the gain previously deferred would only be taxed at 18%. Hence if you were previously taxed at 40%, this could save you 22% tax. Overall you may effectively get tax relief of up to 42% on your investment, albeit an immediate 60% refund with 18% payable in the future. This is before you consider any increase in the value of your EIS investment.

What's the catch? Well investments can go up as well as down. As with any investment, appropriate financial advice should be taken.

● QUICK TAX TIP ● QUICK TAX TIP ● QUICK TAX TIP ●

If you are about to or in the process of building your own home, then you may be able to reclaim the VAT on the costs. The claim needs to be submitted to HM Revenue and Customs within 3 months of the building being completed. Certain other conditions also need to be satisfied, including the construction being a total new build and not a mere extension of an existing property.

Take care as some things, such as labour, are excluded from the claim. The builders should not be charging you VAT on labour in the first place, so check the invoices you receive.

It may be possible to make claims in respect of conversions of non-domestic properties, such as barn conversions. However unlike the new build property, 5% VAT would be payable on labour costs. Whilst VAT on property is a complicated area, with careful planning significant VAT savings can be made.

Tips on how to avoid late filing penalties

Although strictly a late filing penalty is not tax, it can be an extra cost and in many cases may be avoided. A recent survey by HM Revenue & Customs of why monthly returns under the Construction Industry Scheme were being received late showed that many had no postage at all on the envelope, some had insufficient postage for the size of envelope and some had merely been posted too late.

The problems and resultant penalties can be the same of any returns that need to be submitted to HM Revenue & Customs. Avoiding the penalties can be simple;

- Prepare returns well in advance of filing deadlines.
- Where posting ensure posted well in advance of deadline and where possible record when posted.
- Ensure that the correct postage for weight and envelope size is used. (The minimum postage for an A4 size envelope is now 52p).
- Where filing online, make sure the return is submitted well in advance of deadline, just in case there are technical difficulties. Keep a copy of what is filed and any filing receipts issued.

A little care could save significant sums in penalties. The position is more serious for contractors as they risk losing their gross payment status if more than three returns are late, which could seriously affect their cash flow and business.

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Rewarding employees!

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. Bonuses may not always be the most tax efficient option and care is needed with dividends, especially with the proposed new income shifting rules, not to mention the tax issues on transferring some of your stake in the business to key employees.

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.

● QUICK TAX TIP ● QUICK TAX TIP ● QUICK TAX TIP ●

Prior to 6th April 2008 an individual that owned a property used by a business, whether they owned the business or not, could enjoy a tax rate of as little as 10% when they came to sell. Unfortunately this is no longer the case.

For individuals that own business property and rent it out to other people's businesses, they will no longer be able to enjoy such a low rate, and all future profits on the sale of their properties will be taxed at 18%. There may be ways to reduce this depending upon exact circumstances.

Where the business property is rented to the owner's business and it is sold along with the business or shares in the company, then it may be eligible for the new Entrepreneur's relief, bringing the tax bill down to around 10%.

Under the draft legislation where rent is paid for use of the property Entrepreneur's relief may not be available. For those looking to sell shortly, as the conditions for the relief cover the previous 12 months, they may wish to stop the rent payments now. As this may involve varying lease agreements, or action may not be necessary in some circumstances, then advice should be taken.

Home Workers Tax Free Rate

The guideline rate that employers can pay employees, free of tax and NIC, for working at home has increased from £2 per week to £3 per week. Although this is not the maximum rate that can be paid over to employees who regularly work from home, it is a guideline rate that can be paid without the need for the employee to provide records or the employer having to justify it. The payments can be higher where there is clear evidence to justify it.

We can help

Despite constant statements about simplifying the UK tax system, the truth is that it gets increasingly complex each year. This is compounded by the constant u turns in policy that we have recently seen. But we can help.

We can guide you through the complexities of the legislation and help you to pay much less tax.

So if you would like to discuss ways in which we can help you to make tax savings, or if you would like to discuss any of the issues identified in this edition of 'Pay Less Tax' please do not hesitate to contact us

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