

Do you want to pay less tax?

The UK tax system is rather like a cake, with new layers continually being added. The problem for the ordinary taxpayer is how to find the layers that apply to their circumstances. The growing complexities of the UK tax system 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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Employees can save money on pension contributions

Payments by an employee into a private pension scheme are often made out of income that has had tax and national insurance deducted. Where the employer makes the contributions direct (employer contributions) there are immediate national insurance savings for both the employee and employer. This may be far better than most other perks.

If "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.

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Cost of protection set to increase in October

Before October 2007 you can set up an Enduring Power of Attorney ('EPA') with professional support relatively cheaply. Essentially an EPA is a formal document that nominates a trusted individual to deal with your financial affairs and property, in the unfortunate event of you being incapacitated, either physically or mentally. An EPA makes things so much easier for your family, and is a very important part of good financial management.

After October 2007, however, if you haven't already created an EPA, to achieve the same protection for your family you will need to create a new style "Lasting power of attorney" – and these are widely expected to be much more expensive. Therefore, if you don't have an EPA already, we strongly recommend that you consider having one drafted before October 2007.

Want to help your children through University and save tax?

As the new University term looms nearer many new students will be thinking about where to live while they study hard! One scenario we frequently consider is the possibility of the student's parents purchasing a house or flat for their son or daughter to live in, and the subsequent tax implications. This train of thought can extend to buying a slightly larger property to enable the renting of rooms to friends.

As ever tax consequences will arise. Broadly speaking the tax implications will arise in 3 distinct stages, on purchase, during the ownership period (where rent is received) and on disposal. However, with careful planning it may be possible to reduce or often wipe out any potential tax liabilities.

For example, where the owner lives in the property, it may be possible to let one or more of the rooms to friends in a tax efficient manner using the rent a room scheme thereby wiping out Income Tax on the rent. This will depend primarily on the accommodation provided and the rental income received. The relief exempts from tax the first £4,250 of annual rent. Records of the property details should be maintained including a record of any rental income received and expenses incurred.

There are several direct taxes to consider including Stamp Duty, Income Tax, Capital Gains Tax and possibly Inheritance Tax. Advice should be sought prior to purchasing the property in order to maximise the tax savings.

If you are interested in ensuring that you help your child through university tax efficiently please do not hesitate to contact us.



Income tax charge could catch you out!

Even more care is required these days when considering passing family wealth down or helping out your children financially. In recent years a new income tax charge came into being, known as "Pre-owned asset" rules.

The government brought in the rules to stop what they perceived as abuse of the Inheritance Tax legislation. Despite this, the rules can catch many innocent taxpayers. Unfortunately the rules are complicated and it can be difficult to confirm instantly if someone is caught.

Broadly you may need to consider your position further if you enjoy a benefit from any assets (for example home, holiday home, work of art, to name but a few);

- which had been given away at any time after 17 March 1986, or
- where you contributed directly or indirectly to the purchase of the asset by someone else.

For example let us consider a mother giving her son money, which he then uses to buy a holiday home. If the mother then uses that holiday home, she could be caught by the new rules and be liable to income tax.

The income tax charge will be calculated at an individuals' top rate of tax on the value of the benefit enjoyed, and will be an annual charge. The income tax charge can be avoided by electing to be caught by the Inheritance Tax rules. However for many this could prove more costly.

There are other ways of avoiding the income tax charge but action is required sooner rather than later. Failure to take action or declare the liability on Tax Returns could build up penalties and a tax bill for a later day. If you are concerned about being caught by these rules or your Inheritance Tax position and require assistance, we can help.

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The rules regarding capital allowances has become a complex 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. We can now offer reviews of business property that could result in tax repayments of thousands in tax. So if you have a commercial property, and would like to save tax then please contact us. The impact of the tax savings are to reduce from 2008 and so action should be taken now.

Current reviews could result in increased taxes for business owners!

Recent press reports have highlighted concerns over the way private equity executives are taxed. Private equity bosses can be paying tax of as little as 10% on their income, rather than the full 40%, due to the way in which it is treated.

One of the main concerns seems to be "Taper Relief" on business assets, such as company shares. After owning the shares in an unquoted trading company for two years, the tax on the uplift in value of the shares when sold, could be as little as 10%.

The relief was brought in to encourage investment in businesses. Not only has the relief benefited business owners when they come to sell their businesses, but it has also helped private equity executives in reducing their tax bills.

The Treasury are reportedly conducting reviews into the tax breaks enjoyed by private equity firms, and although the new Chancellor has played down the possibility of changes, there are fears that small and medium business owners could be hit should any changes be brought in. A tightening of the taper relief rules could result in increased tax bills for many business owners when they come to sell up. Unfortunately once changes are announced then it may be too late and this is where a crystal ball would be useful.

Some business owners may wish to consider taking advantage of the current low rates now. Every business is different and professional advice should be sought at an early stage. If you are concerned that any changes may affect you and would like to consider your current options in detail please don't hesitate to contact us.



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Take care with Stamp Duty Land Tax!

If you are considering the purchase of property don't forget the imposition of Stamp Duty Land Tax (SDLT), currently chargeable at up to 4% of the purchase price (inclusive of VAT, if applicable).

When purchasing property there is often a temptation to allocate the cost between the actual building and the fixtures in such a manner as to minimise the SDLT due on the structure. Careful consideration is required prior to drafting contracts as this strategy could not only reduce the available tax relief now, but potentially increase the tax bill on the eventual sale of the building.

We would be delighted to discuss your personal circumstances and the options available to you.

Buy to let – beware the financial pitfall!

In recent years more people have moved into this area of investment. And it is easy to see the attraction – investing in bricks and mortar is seen by many as a sound investment, combined with the relative ease by which finance can be raised.

But this is where problems can arise. The finance, or rather the repayments on the finance. Because, for the landlord you need to be sure that the rental income will cover the repayments plus any expenses on the upkeep of the property plus any tax liability.

Yes, tax! If you own the property personally, then you will be liable to income tax on the net rents after deduction of allowable expenses. If owned by a company, then the company will be liable to corporation tax on the net rents after allowable expenses.

Allowable expense includes interest on any loan to fund the purchase, repair, improvement or alteration of the property. But not the capital repayments. And this is where many people make a mistake. Thinking that all of the repayments can be used to set against the rents and then finding that they have a significant tax liability but insufficient money left in the rental income pot to cover this. So, do your sums carefully!!

The other thing to consider is how to secure the finance. If you own the property yourself, then whether you secure the finance against your home or the rental property is irrelevant for tax. As long as the finance was taken out to acquire the rental property, then the interest can be claimed as a deduction against the rents when calculating the income tax liability. If the company owns the property then the company needs to take out the finance, rather than you personally.

If you are considering acquiring property to rent out and wish to discuss how to maximise tax savings please do not hesitate to contact us.

Don't let the Taxman take 40% of your business

Business Property Relief (BPR) can reduce the value of a business chargeable to Inheritance Tax by up to 100%. Where a business consists wholly or mainly of the holding or making of investments then BPR will be denied. In which case, the value of the business will be liable to Inheritance Tax. One of the main areas where this occurs is where land or buildings are let out.

Many businesses may find that they no longer need all their premises for their own business and the logical step is to rent out surplus space. This can be particularly true for farmers who let out outbuildings as small industrial units. And, if BPR is denied then 40% of the value of your business will go to the tax man rather than your beneficiaries and this could mean that they would not be able to continue with the business.

There are steps that you can take in order to protect the BPR and enable you to pass your business on to future generations intact. However, it is important that action is taken sooner rather than later. If you would like advice on the steps to take to protect the BPR on your business please do not hesitate to contact us.

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Shattering the tax myths – Students don't pay tax

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 "students don't pay tax".

Unfortunately this is not true. Students are entitled to the same personal allowance as other individuals (currently £5,225). If their total income exceeds this allowance then they may well be liable to extra tax.

Students who are employed during holidays may well be asked to complete and sign a P38S. The form merely states that the student confirms that their income with the holiday work will not exceed the personal allowance and allows the employer to pay the student without the deduction of tax or national insurance. If their earnings exceed the appropriate limits then tax and national insurance will be paid in the same way as for other employees.



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All is not lost on death

Should someone pass away creating an Inheritance Tax bill on their estate, there may still be action that can be taken. Providing all of the beneficiaries of the deceased's estate agree, then a "deed of variation" can be executed within two years of the death. Getting agreement of all beneficiaries can often be the biggest problem.

Whilst there is no substitute for having a correctly drawn up tax efficient Will in place, the deed does allow one last chance to reorganise estates and perhaps save Inheritance Tax. The deed can vary where the estate goes, as if the deceased had given the instruction. This may be possible, even when there was no Will in place.



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Fuel rates for company cars increase from 1st August 2007

HM Revenue and Customs have issued new advisory fuel rates for use from 1st August 2007. Where employees are provided with a company car and they are reimbursed a mileage rate to cover the fuel used on business journeys, or employees are required to reimburse the employer for fuel used on private journeys then the advisory rates are normally used. Records of the journeys and payments need to be maintained to ensure that tax bills don't arise on the mileage reimbursed or fuel paid respectively.

These rates apply to all journeys on or after 1 August 2007 until further notice:

Engine Size	Petrol	Diesel	LPG
1400cc or less	10p	10p	6p
1401cc to 2000cc	13p	10p	8p
Over 2000cc	18p	13p	10p

Petrol hybrid cars are treated as petrol cars for this purpose. The rates are not binding, and where actual costs can be demonstrated to be different these can be used instead by agreement with your local tax office.

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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."

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