CROSSMOUNT
BOOKKEEPING &
ACCOUNTING SERVICES

Tax Tips 2008/09

Introduction

Tax laws change every year and sometimes more often. You need to review your personal finance situation regularly to make the most of your reliefs and allowances, and to ensure you save tax wherever possible. These Tax Tips are designed to act as prompts to help you judge which ideas might be relevant to you or your business. This guide was revised in the light of the changes to the law contained within the 2008 Finance Act.

Contents

Personal and family tax planning

1 **Make sure you tell HM Revenue & Customs (HMRC) which of your properties should be treated as your main home for tax purposes when you buy a second (or even third) home.** The property that has always been your main home is free of capital gains tax (CGT). Any other properties which have not always been your main home, but where you have lived for part of the time, will have some tax exemption for the periods you have lived there and had then elected for it to be your main home. For any property that was your main home at any time, the gain for the last three years of ownership is free of tax, even if you did not live there during that final period.

2 **If you are getting married or entering into a civil partnership and you and your partner own separate properties and continue to live in both homes, you need to nominate one of them as your main home within two years of the marriage/civil partnership.** Once married, you can have only one main home between you for tax purposes. So nominate the one that is likely to make the most use of your CGT exemption, otherwise HMRC will designate the property you occupy most.

3 **If you have a company and you and your spouse or civil partner are both involved in managing it, it makes sense for both of you to be directors as well as shareholders.** The government wants to prevent people from saving tax by having their company pay dividends to a lower taxed spouse or partner, known as 'income shifting'. If you are both directors and take part in running the business, you are less likely to be caught by the laws that try to prevent income shifting.

4 Contribute up to £1,200 each year into your child's tax-free Child Trust Fund savings account. The fund will build up free of tax on investment income and capital gains until the child reaches 18, when the funds can be withdrawn or rolled into a tax-free ISA. Every child living in the UK and born after 31 August 2002 should receive a voucher from HMRC to open a Child Trust Fund.

5 Maximise your age allowance. Once you are aged 65 you may qualify for an extra tax allowance of £2,995, or £3,145 if you are aged 75 or over (for 2008/09). Note though that if your total income exceeds £21,800, this extra age-related allowance is reduced by £1 for every £2 over that limit. One way to reduce the restriction of the age allowance and minimise your tax liability is to make a pension contribution if you are under 75. There are several other possible strategies.

6 Check your PAYE tax code. Up to a quarter of all PAYE tax codes are incorrect when issued. HMRC may have included an estimate of your unearned income that means you will pay tax on that income earlier than you would through your self-assessment tax return. You can ask HMRC to remove this estimated income and also correct any other errors.

7 If your marriage is breaking up permanently, aim to divide up the valuable assets, such as shares and land, as soon as possible. If you can complete such transactions in the tax year in which you separate, you will then not have to pay CGT on them. If you delay until the next tax year, the tax charge could be painful.

8 Check your National Insurance Contributions (NICs). If you have more than one job, or if you are both employed and self-employed at the same time, you may overpay NICs during the tax year. You can reclaim any overpaid NICs from HMRC after the end of the tax year. You can also avoid the overpayment arising by deferring payment of NICs on one of your jobs if you complete the form in the HMRC leaflet CA72A (employees) or CA72B (self-employed).

Tax and your property

9 When you next move house, instead of selling your old home you could let it out, so that the rent covers the mortgage interest and other expenses. This may be particularly appropriate given the current uncertainties in the property market. When you eventually sell this property, the proportion of the gain relating to the period when it was occupied as your main home will be exempt from tax. In addition, you can claim a further tax exemption of up to £40,000 per owner because the property has been let. With the benefit of all these reliefs, you might find that the gain on the let property is more or less tax free. Any gain which does remain is taxed at 18%.

10 Renting out property as furnished holiday lettings (FHL) on a commercial basis is still worthwhile under the revised CGT regime. FHL properties qualify for several tax privileges, including the new 'entrepreneurs' relief'. This applies to gains on the disposal of FHL and reduces the effective rate of tax to 10%.

11 Keep your tenants warm and save tax. As a landlord, you can claim a special tax allowance of up to £1,500 per property, giving you immediate tax relief for your expenditure on energy-saving insulation. This includes loft, wall, floor or hot water system insulation installed in residential properties. This is a one-off allowance for expenditure before 6 April 2015.

12 Let rooms in your own home. The income is completely tax free up to £4,250 per property. If the rent is higher than this, check whether the normal approach of paying tax on the income after deducting allowable expenses is more tax-efficient than claiming the exemption of £4,250.

Tax-efficient retirement planning

13

Employers' pension contributions save NICs. If your employer pays you salary or bonus that you then invest in your pension, both you and your employer have to pay NICs. But if your employer pays a contribution directly into your pension scheme, the employer receives tax relief for the contribution and there are no NICs to pay – saving the employer's NIC of 12.8% and your NICs as well. You could arrange with your employer to cover the cost of the contributions by reducing your salary or by not taking a bonus. However, HMRC is very particular about how this should be done in order to be tax-effective.

14

Make large pension contributions. Your annual allowance for 2008/09 is £235,000, which is normally the maximum total pension contribution that can qualify for tax relief in that tax year. You and your employer, between you, can contribute up to this amount, but if the total contributed is more than the annual allowance, you may suffer a tax charge. Even if you have no earnings, you can benefit from tax relief on gross contributions of £3,600 in any tax year.

15

Arrange for your company to buy your shares to help solve your business succession problem. When you retire from your own company, you would probably like cash in return for your shares, but your younger colleagues may not have the resources to buy you out. One solution is for the company itself to buy your shares and then cancel them, leaving the remaining shareholders controlling the company. You would end up with cash on which the capital gain should be taxed at no more than 10% assuming that the disposal qualifies for 'entrepreneurs' relief'.

Savings, investment and tax

16 Invest in assets that produce gains subject to CGT rather than income subject to income tax.

You can make gains of £9,600 in 2008/09 before you have to pay CGT. From 6 April 2008, there is a flat rate of CGT of 18% on gains above this annual exemption. Review your investments to see if some of them should be in assets that come under the CGT regime – eg shares, unit trusts, and investment trusts. But bear in mind the extra risk that might be involved in CGT-based investments. The value of share-based investments can go down as well as up and past performance is not a reliable indicator of future performance.

17 Take advantage of the increased Individual Savings Account (ISA) investment limit and generate tax-free income and capital gains.

The maximum annual amount which can be invested in an ISA increased on 6 April 2008 from £7,000 to £7,200. Of this, a maximum of £3,600 can be in a cash ISA with the remainder being invested in a shares ISA. As there are many ISAs on the market, it is worth shopping around to find the best deal, taking account of the rates of return and fees charged.

18 Obtain income tax relief by subscribing for shares in a Venture Capital Trust (VCT) or Enterprise Investment Scheme (EIS) shares.

In 2008/09, a subscription in VCT shares costing up to £200,000 can create a 30% income tax credit against your income tax liability. They are also exempt from CGT when they are sold. A subscription in EIS shares costing up to £500,000 can create a 20% tax credit against your income tax liability. You can also defer tax on your capital gains by reinvesting your profits in EIS shares. But be warned – both VCTs and EISs can be risky investments and you must hold VCT shares for at least five years and EIS shares for three years in order to retain your income tax credit.

Tax and your business

19 **Think about how you should start your business – as a sole trader, partnership or limited company.** Companies still have tax advantages (see Tip 20) but generally only when the business has started to make a profit. With a new venture, you might expect to make losses in the very early years. As a sole trader or partnership, your losses in the initial years can be set against your other income in those years, or carried back to set against your income in the three years before you started the business.

20 **Incorporation can still be worthwhile.** Although corporation tax rates for smaller companies have increased recently, a business with profits of £50,000 can still save tax and NICs of approximately £3,500 if you trade through a company, compared to operating as a sole trader, and take most of your earnings as dividends.

21 **Do not delay telling HMRC about your new business.** Sometimes it is difficult to know exactly when a business starts or when a hobby turns into a business. Selling items through online auctions can be fun, but as soon as you start buying items specifically to sell, you are deemed to be trading and you will need to register your business with HMRC on the form in leaflet SE1 or you can register online.

22 **Switch to the flat rate VAT scheme for small businesses if your business has few costs and overheads, and your turnover is less than £150,000 a year.** The VAT you pay is calculated by multiplying your gross sales by a flat rate determined by the business sector you work in. Purchases are ignored, so the scheme is very simple to use. If you start to use the flat rate VAT scheme in your first year of VAT registration, then the flat rate you use is reduced by a further 1% for that year, so the savings are even greater.

23 Choose the right company car and reduce your tax. You can set the full cost of buying a new company car against your company's profits this year, if you choose one with an official CO_2 emissions rating of 110 g/km or less. And, as the car driver, you will also benefit from a lower income tax charge. In addition, if you provide your employees with fuel for their company cars, the amount of VAT that can be recovered is based on the CO_2 emissions of the car. This is another reason to buy low emission vehicles.

24 Plan the timing of purchases of new plant and machinery in order to maximise the benefit of the new Annual Investment Allowance (AIA). From 1 April 2008 (corporation tax) or 6 April 2008 (income tax), all businesses, regardless of size, will be able to offset against taxable profits the full cost of the first £50,000 per annum spent on plant and machinery (other than cars). Where businesses spend more than £50,000 in a 12-month period, the excess will attract writing down allowances, generally at the rate of 20%. So it may be more tax-efficient to plan the timing of your expenditure to within the £50,000 limit for each year. AIA apportioning for the accounting periods straddling April is likely to come in at under the £50,000 threshold.

25 Remember to reclaim the statutory pay when your employees become parents or are off work with sick pay. When employees have children, as an employer you may have to pay them Statutory Maternity Pay, Paternity Pay or Adoption Pay, depending on how long they have worked for you. A small business with an annual NIC bill of less than £45,000 can reclaim 100% of the statutory pay, plus an additional 4.5% compensation. Larger businesses can claim back 92% of the statutory pay. Similarly, when staff are ill and off work, you are obliged to pay them Statutory Sick Pay (SSP) at £75.40 a week, but you can claim the SSP back from HMRC if the total paid out in one month is more than 13% of the total NIC due on your whole payroll for that month.

Employment and tax

26 **Set up a tax-efficient share scheme for employees.** Share schemes can create taxable benefits for employees, but if share options are granted under an approved share scheme or Enterprise Management Incentive scheme, there is no tax payable by the employees until the shares are sold. The annual CGT exemption (£9,600 in 2008/09) and the 18% rate of CGT from 6 April 2008 make these potentially attractive benefits for many employees.

28 **Reimburse the costs of a new employee's moving expenses.** You can reimburse up to £8,000 of a new employee's moving costs tax-free if they have to move house to take up the job. If you pay more than this amount, the excess is taxed as part of the employee's salary. This tax relief only applies if the new employee does not already live within a reasonable daily travelling distance of their new place of work.

27 **Pay employees £5 tax free each time they need to stay away from home overnight.** This tax-free amount can be in addition to the cost of accommodation and meals that can be reimbursed if receipts are produced. If the overnight stay is abroad, the tax-free amount is £10 a night.

29 **Provide your employees with bicycles and associated safety equipment so they can cycle to work.** As long as the bike and safety equipment remain the property of the employer, there is no tax charge for the employee, and the cost is fully tax deductible for your business. In addition, you can provide your cyclist employees (including those using their own bikes) with a tax-free breakfast when they arrive at work on a day which you designate a 'cycle to work day'.

30

Encourage car sharing with tax-free payments to employees. When your employees travel to work-related training courses or make other business journeys, pay the drivers an extra tax-free 5p a mile for each fellow employee they carry.

31

Provide your employees with a free works bus, or subsidise an existing local public bus service. Paying for employees to get to work is normally a taxable benefit, but the provision of a works bus is tax-free if the vehicle is designed to carry at least nine passengers. The bus can also be used to take employees to the local shops at lunchtime with no additional tax charge.

32

Check how much you pay for the fuel used on business trips in your company cars. Employers can now pay up to 21p per mile tax-free (depending on the size of the car's engine) to employees who pay for the fuel used in the company car they drive. If your company has any cars that are not very fuel-efficient, you can negotiate a higher tax-free mileage rate with the local tax office.

33

Don't forget to party! Even the smallest business can host an annual tax-free social function for all its staff, including the directors and their partners. As long as the cost per head is less than £150, employees are not taxed for having a good time and the company benefits from full tax relief on the expense incurred.

34

Supply your employees with one tax-free mobile phone each. Mobile phones provided to employees are tax free, as long as it is the employer rather than the employee who owns the phone and takes out the contract with the telecoms company.

35

Pay employees who are parents partly with childcare vouchers that they can use to fund nursery and after school care. The first £55 a week paid as childcare vouchers is free of both tax and NICs in their hands and you do not have to pay employer's NIC on the value of the vouchers. You have to offer the childcare vouchers to all your employees who work at the same site, and the vouchers must not be exchangeable for cash. However, be aware of the impact on the employees' Child Tax Credits.

36

Get paid for filing returns over the internet. If you have fewer than 50 employees and you submit your 2008/09 end of year PAYE return to HMRC using the internet, you will receive a tax-free cash incentive of £75. There will be no incentive payment for years after 2008/09. Filing your VAT returns online will not provide a cash incentive, but you do get up to ten extra days in which to settle the VAT bill.

Overseas income and gains

37 **If you are leaving the UK for good, make sure that you can clearly show HMRC that you have changed your domicile,** otherwise even your overseas assets will remain within the UK inheritance tax net. Your 'domicile' is the country you treat as your permanent home. But if you were originally domiciled in the UK, you need to sever most ties with this country to change your domicile. Compare the effect on your tax position under the tax rules of the country to which you are emigrating.

38 **Take full advantage of your non-residence status.** If you are planning to live abroad for at least five complete tax years, you should be able to escape UK CGT on gains you make while you are abroad. You should claim non-UK resident status from your date of departure. However, for CGT purposes, HMRC will generally not accept that you are non-resident until the start of the tax year following the year of your departure. So if you can leave the UK just before 6 April, you will have the maximum period free of the UK tax system.

39 **If you are not domiciled or not ordinarily resident in the UK, consider whether it is worthwhile to apply the remittance basis of taxation.** Up to 5 April 2008, UK residents who were either not domiciled or not ordinarily resident in the UK were charged to UK taxation only on overseas income and gains brought into the country. From 6 April 2008, if you are aged 18 or over or have more than £2,000 per year in unremitted overseas income or gains and have been resident in the UK for more than seven of the past nine tax years, you will have to pay a £30,000 annual tax charge if you want to continue to take advantage of the remittance basis. This £30,000 charge is generally in addition to any tax due on UK income and gains or foreign income and gains actually remitted (although it does count towards some overseas taxes). If you use the remittance basis in any tax year, you will lose your entitlement to any income tax allowances and the annual CGT exemption for that year.

Tax and your estate

40 **Make a will and review it regularly.** If you die without making a will, your assets will be divided between your relatives according to the intestacy rules. This will be after IHT is paid at 40% on any value above £312,000 that goes to anyone other than your spouse or civil partner. If you have no surviving relatives, the same tax will be paid but the Crown (ie the government) will claim the balance. To avoid this, if you have no relatives, make a will leaving your estate to the charities of your choice. Anything left to charity is free of IHT. Wills should be reviewed and, if necessary, updated regularly to ensure that they are still effective in the light of any changes in tax and other legislation.

41 **Rather than just living together as a couple, get married or register a civil partnership.** Otherwise your surviving partner will have to pay IHT on anything inherited from you that exceeds the nil rate band, currently £312,000. Do not forget that there are some potential tax and other costs to consider. But your spouse or civil partner can now inherit your nil rate band when you die, potentially saving even more tax.

42 **You can usually rewrite someone's will after they have died if their arrangements are not tax-efficient.** Not everyone leaves a tax-efficient will. Fortunately, any will can currently be varied within two years of the date of the death if all the people who will benefit under the will agree and they are not minors. You cannot count on this legal procedure continuing to be available, so it is far better to keep your will up to date.

43 Invest in a furnished holiday letting property to save inheritance tax.

Property that you let furnished for at least 70 days a year, and which is not normally occupied by the same person for more than 31 days in the holiday season, may well qualify as a furnished holiday let. After two years' ownership, and if you supply some services to the tenants, the property will attract IHT business property relief and will be free of tax when you die.

44 Make regular gifts out of your annual income to whomever you choose.

As long as you establish a pattern of gifts that can be shown to be covered by your net income without reducing either your capital assets or your normal standard of living, those gifts are free of IHT. The recipients of these gifts need not be the same people each year.

45 Make gifts totalling £3,000 each tax year from your capital resources.

These gifts are free of IHT and, if you forget to make your £3,000 gift one year, you can catch up in the next tax year by giving a total of £6,000. Remember, both you and your spouse or civil partner can each give £3,000 every tax year in addition to gifts you make out of your regular income.

46 **Use the inheritance tax marriage exemption for gifts.** If your son or daughter is about to marry or register a civil partnership, then you and your spouse/civil partner can each give them £5,000 in consideration of the marriage, and the gift will be free of IHT. This is in addition to any smaller gifts you make out of your regular income each year. The marriage exemption can also be combined with your £3,000 per annum annual exemption to allow you to make bigger exempt gifts. The IHT-free gift you can make on the occasion of a grandchild's wedding is £2,500. Civil partnerships attract the same exemptions.

47 **If a relative who was a widow or widower has died after 8 October 2007, find out what their late partner left them.** People who died after that date inherit the unused proportion of their late spouse or civil partner's nil rate band – whenever that death took place. This could mean that this tax year, up to an extra £312,000 of the estate would be tax free.

General approach to tax planning

48 **Use all the tax reliefs, and tax-free benefits available to you, as far as is practicable.** Some, such as the personal allowance and age allowances, are given automatically, but others need to be claimed, eg Child Tax Credits and Child Benefit.

49 **If a tax planning scheme sounds too good to be true, it probably is.** In particular, do not get involved in a tax scheme that relies on the non-declaration of income or capital gains, as that would be illegal.

50 **Bear in mind that the tax effect of a decision is only one element to consider.** Commercial, practical and financial implications of the decision should always be taken into account.

CROSSMOUNT

BOOKKEEPING &
ACCOUNTING SERVICES

HIGHLANDS HOUSE
165 THE BROADWAY
WIMBLEDON
LONDON SW19 1NE
T: 0208 432 4650
F: 0208 432 4651
E: MAIL@CROSSMOUNT.COM
WWW.CROSSMOUNT.COM

PROPRIETOR: P S WELSFORD