

Are you planning to save tax?

Albert Einstein once said “The hardest thing in the world to understand is the income tax”. With the continuing increase in pages of UK tax law, few would disagree with him. However you should not let the complexity of the tax law deter you from a simple goal; to keep your taxes as low as possible. We can help you achieve this goal.

Tax planning is all about understanding the business and personal taxes that affect you and identify ways to minimise them. We focus on understanding the complex tax laws in order to identify tax saving opportunities for you. In this edition of Pay Less Tax we review what action you can take to save tax.



● TOP TIPS ● TOP TIPS ● TOP TIPS ●

Before taking out an investment, consider the tax issues on the investment and your returns. Consider if the investment will increase your tax bill, affect your age allowances, or even reduce the amount of tax credits that you are entitled to.

Couples should always consider in whose name the investment should be. For example if one is a higher rate tax payer then tax savings could be made by making the investment in the other's name.

The other thing to bear in mind is the type of investment, and how the return you make is taxed. Higher rate taxpayers for example may well prefer to invest in assets that give a capital growth as opposed to annual income in order to achieve tax savings.

Investments can seriously affect your tax bill!

Choosing the best investment is difficult enough. You want an investment that gets you the best return. It can be difficult to predict if stocks and shares will go up or down, or whether a guaranteed fixed rate of return will be the best for your money. On top of that, and what many people forget, are the tax issues which, if overlooked, could leave you worse off.

Take, for example, investment bonds. Many people think that these are a tax free investment and a simple solution for many, in particular pensioners. Although investing in such bonds may be suitable for many, it is difficult to confirm this without first addressing all of the tax issues.

First of all, let's take the 'tax free income' of up to 5% that you can withdraw each year. This is actually a withdrawal of the initial investment which is treated as a return of the original capital and so not taxable. Where higher amounts are taken then this is treated as income and often referred to as a chargeable event. A chargeable event also arises on encashment, sale or death of the policyholder.

The income comes with a tax credit so, if you are a basic rate taxpayer, there may be no further tax to pay. However, where the chargeable event, together with your other income, exceeds the basic rate band then additional tax will become due on some or all of this income. In other words, you will face a tax bill of up to 20% of the income.

Pensioners, on the other hand, can be caught out even if their total income including the bond is within the basic rate band. The current level of income that a pensioner over 75 can receive free of tax is currently £9,180. This is referred to as their personal allowance and is the amount of income they can receive before they start to pay tax.

If their total income exceeds £21,800 then this personal allowance can drastically reduce. Hence should a chargeable event occur then this income could reduce their personal allowance, thereby increasing their tax burden, despite their income not hitting the higher rates of tax. This could result in extra tax of up to £629 each year for a single pensioner.

And it's not just pensioners who are affected. Income from a bond can seriously reduce the amount of tax credits available. Even a small chargeable event that results in no extra income tax could wipe out up to 39% of the tax credits payable.

Is the first £30,000 of your redundancy package tax free?

With the current credit crunch, some employers are considering reducing their work forces. If you are an employer in this unhappy position then professional employment advice should be taken at the outset. If some employees are to be made redundant then both legal and tax issues should not be overlooked. There is a common misconception that the first £30,000 of any payout to employees leaving the business can be made free of tax. Unfortunately it is not that simple, as a number of issues need to be considered, including;

- Is the employee retiring and the payout a retirement package?
- Is there an express or implied contractual obligation to pay the money?
- Is the money being paid in return for something, such as a restrictive covenant?
- Is the payment a terminal bonus?

If the payout does not fall under one or more of these, then it may well fall under the tax rules for genuine redundancy payments, with the result that the £30,000 tax free exemption will apply. A wholly voluntary payment at the ending of an employment will be classed as genuine compensation for redundancy and qualify for the £30,000 tax exemption.

● **TOP TIPS** ● **TOP TIPS** ● **TOP TIPS** ●
Before dismissing any employees or announcing redundancies take advice to cover the employment and tax issues. Attention to detail at the outset can help avoid the tax pit falls and possibly identify significant tax savings.

Have you sold a Spanish property?

Anyone who has sold a Spanish property between July 2004 and December 2006 may be entitled to reclaim a substantial portion of the Spanish Capital Gains Tax (CGT) paid at the time of sale.

Individuals who can benefit most, are those who have not paid UK CGT on the gain. During this period UK citizens and other non-resident EU citizens paid up to 35% CGT when selling their property, compared to just 15% paid by Spanish nationals.

This overpayment breaks European Community Treaty discrimination rules and could now result in refunds for those who have a claim.

For further information and to see whether you or your client may be eligible to make a claim please contact us.



Fuel rates for company cars increase from 1st July 2008

HM Revenue and Customs (HMRC) have issued new advisory fuel rates for use from 1st July 2008. 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 July 2008 until further notice

Engine Size	Petrol	Diesel	LPG
1400cc or less	12p	13p	7p
1401cc to 2000cc	15p	13p	9p
Over 2000cc	21p	17p	13p:

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. The rates will be reviewed every six months and changes announced by HMRC around a month in advance of the change. For employers wanting to use the latest rates, it is worth keeping an eye on the website www.hmrc.gov.uk.

Take money from your company tax efficiently

Bonuses and dividends are the traditional way of taking profits out of your company or rewarding key employees. Significant tax savings can be achieved by selecting the right combination of salary, bonus and dividends for the company and personal circumstances.

Far higher tax savings can be made by considering other alternatives, such as Employee Benefit Trusts. An Employee Benefit Trust (EBT) is generally a discretionary trust for the benefit of employees. There are different types of EBT and ways in which they can be used to maximise the tax savings. Again it depends upon the full circumstances as to the best EBT solution.

The two key steps to ensuring that you enjoy the big tax savings are;

- Regularly review the position and consider all options.
- Ensure that the appropriate paperwork is correctly in place.

We offer a remuneration review to identify the most tax efficient options to take profits from your company. We can also ensure that all of the appropriate documentation is prepared on a timely basis. Please contact us if you are interested in more tax efficient ways of extracting company profits or rewarding your key employees.

Bought a second home?

Capital Gains Tax needs to be considered for every property you sell. If you sell your home (occasionally referred to as "main residence"), then no tax usually arises on the sale. This is because we are 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. If a review is undertaken within 2 years of acquiring the second property, then it may be possible to take action and make substantial Capital Gains Tax savings on the properties.



Reclaim your VAT here!

If your business has overpaid VAT for accounting periods ending between 1 April 1973 and 1 May 1997 you can still claim it back before 31st March 2009. Rules have been brought in to allow businesses to make the reclaims, after a ruling by the Lords in January that the three year limit does not have affect for claims for periods before 1st May 1997.

From 1st July 2008, the limit for errors being adjusted on VAT returns increases from £2,000 to £10,000 or 1% of the turnover, whichever is the greater, subject to a maximum of £50,000. Errors must have been made within accounting periods ending in the previous three years.

Where errors exceed the new limits, then the corrections cannot be made on the VAT returns. Instead a voluntary declaration will be needed to your local VAT office. This should avoid HM Revenue & Customs imposing a penalty on VAT underpaid, but not interest.

● TOP TIPS ● TOP TIPS ● TOP TIPS ●
If your business is VAT registered and your customers are slow payers, then you may wish to improve your cash flow by switching to cash accounting for VAT purposes. Cash accounting can be used if the estimated turnover for the next tax year will not be more than £1.35 million.

Using cash accounting means that the business only ever pays over VAT when it receives the payment from customers, rather than when your business raises the invoice. There is no need to separately account for bad debts or reclaim the relevant VAT previously paid over to HM Revenue & Customs.

Cash Accounting will not be suitable for all businesses, for example where a business regularly receives a VAT repayment, the repayments may be delayed to subsequent quarters when expenses are paid.

Consider moving your business

Despite recent changes to the tax rules, it may still be possible to achieve significant annual tax savings by transferring some partnerships or sole trader businesses into a limited company. Obviously it will not suit all businesses, and each case will need to be assessed individually. Even though tax savings may be the main attraction for transferring the business into a limited company, there are also a number of non tax issues to consider.

We offer a business health check to review the current business structure and identify the possible annual tax savings by transferring the business into a limited company. Please contact us if you are interested in finding out more.



Shattering the tax myths – letting to lodgers is tax free

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. In this edition we'll concentrate on the myth "Letting to lodgers is tax free".

The starting point would normally be that all income from letting is taxable, however it is not that simple.

First of all, we need to consider are you merely letting out a room in your home or rooms in a second property. If you are renting out rooms in a property that you do not live in then the income, after taking off relevant expenses, will be taxable on you.

If you are renting out a furnished room(s) in your home, then in considering whether the rent and any payments received for the provision of meals, cleaning, laundry etc. is taxable we look at the amount received.

If the rental income is less than £4,250 per annum (£2,125 if letting jointly) then the full income will be tax free and a claim under the "rent a room" scheme can be included on your tax return. However depending upon the level of income and expenses it may be more beneficial not to opt into the "rent a room" scheme.

Disclaimer

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● QUICK TAX TIPS ● QUICK TAX TIPS ● QUICK TAX TIPS ●

If you are a trustee or beneficiary of an Interest in Possession Trust set up before 22 March 2006 then you only have until 6 October 2008 to make any transfers or re-appointments without incurring an immediate Inheritance Tax liability.

Any changes made after that date will be subject to an immediate lifetime charge of up to 20% of the value of the transfer or re-appointment.

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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