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Petersons

Tax simplification around the corner

The recent formation of the Office for Tax Simplification and Tax Professionals Forum, with the subsequent issue of nine tax-related discussion documents suggests that the current Government are serious about reducing the existing 11,000 pages of tax code that make up the British Tax system.

The aim of the Office for Tax Simplification is to look at ways to simplify the current tax system, ease administration, and reduce uncertainty for small businesses. The Tax Professionals Forum will be used to help them improve how future tax rules are developed and made into law.

It is widely accepted that a simpler tax system would be good for personal taxpayers and businesses alike. But don't hold your breath. The simplification process could take years or even decades. The last initiative to simplify the Tax System started in 1996 and was stopped 13 years later, even though some areas of Tax had not been touched. Simplification, as with any Tax change, can result in winners and losers. It is therefore worth keeping abreast of the planned changes as they are announced.

We aim to cover some of the main reliefs and tax saving opportunities currently available within this newsletter. However as everyone's circumstances are different, the rules are complex and constantly changing, we would be delighted to talk to you in detail about how the current and proposed 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!

Tax Credits don't apply to me

It is estimated that £4 billion of legitimate Tax Credits entitlement remains unclaimed each year and that nine out of ten families with children qualify for Tax Credits.

During the current tax year which started on 6 April 2010, if your household income is below about £58,000 then you may be entitled to Child Tax Credits. For a family with two children that can mean as much as an extra £9,700 tax free cash in the year while for families with more children the figure can be much higher (e.g. up to £14,300 a year for a family with four children).

When we undertake Tax Planning to save you tax, this can have an impact on the level of Tax Credits available to you. With your help we can ensure that your existing Tax Credit claim does not fall and in some circumstances increases or results in a claim previously not possible.

But we need to act quickly… as claims for Tax Credits are very time sensitive, and by claiming early (i.e. before you think you might be able to get any tax credits) any future award can be maximised. Claiming late, on the other hand, will usually greatly reduce how much you eventually get.

The June 2010 Budget proposed that Tax Credit system would become less generous in 2011 and 2012, and will also involve more traps for the unwary. So acting quickly and taking good advice have never been more important.

Q Quick Tax Tips

Cycle to work scheme still tax efficient

Cycle to work schemes allows employers to provide employees with bikes and related equipment as a tax free benefit. The employer can save VAT on the bike and National Insurance on the benefit. The employer can make the bikes available as part of a "salary sacrifice" arrangement. At the end of the period employees can purchase the bikes at their market value.

Until recently HM Revenue & Customs (HMRC) had accepted that after one year the market value normally used would be 5% of the original value. HMRC have now changed their view to include a table of reducing percentages starting at 25% after 1 year for bikes costing more than £500. Despite the change the cycle to work scheme is still tax efficient. The table is purely optional, as the legislation has not changed. If the market value of the bike differs from the table value then it is the market value that can be used. Care is needed with salary sacrifice schemes and VAT in light of a recent European Court Ruling.

Quick Tax Tips

Get ready for the increase in VAT to 20%

In the 2010 Budget the Chancellor announced a proposed increase in the standard rate of VAT to 20% to be effective from 4 January 2011. Given that the implementation of the VAT increase is some months away there is time to look at ensuring that your VAT cost is minimised and that the suppliers you deal with are not overcharging VAT. We'll include in this and the next edition some ideas for good practice in VAT management to help reduce the impact of the VAT increase.

- Discounts are still commonly applied and there are many suppliers who still fail to make the correct calculation of VAT. Failure to apply VAT properly will result in additional VAT cost.

- Printing is often zero rated but the liabilities can be complex and suppliers naturally err in favour of charging VAT if there is any doubt in their minds on the VAT treatment. It is common to see supplies charged at the standard rate when they should be zero rated. This can create a current saving but also retrospective action can be taken. For those who engage in separate design or direct mailing services some simple restructuring of supplies can create VAT savings by use of the zero rating.

- Fuel and power supplies can often be liable at the reduced rate of 5% and whilst this is a commonly known area, there is often confusion over the VAT treatment especially where suppliers change which is often the case these days when tariffs vary between highly competitive energy suppliers.

- Energy saving materials are installed more often these days in properties and where these have a residential use (care homes and hostels included) or a relevant charitable use then there could be worthwhile opportunities to apply the reduced rate of 5%. The scope is wide but includes expensive heating controls, ground and air source heat pumps and solar energy systems.

- Bad debt relief is a well known feature of VAT but it is still surprising how many organisations fail to take advantage of the opportunity to recover VAT or have misunderstood the rules around insuring and factoring debts and not maximised the relief.

- There are many VAT Tribunal cases these days that demonstrate that it is possible to consider the way supplies are made and whether contractual or procedural changes will mean that supplies perhaps fall into a lower VAT rate.

Quick Tax Tips

Don't assume you are entitled to Entrepreneurs Relief

The increase in the Entrepreneur's Relief Limit to £5 million from 23rd June 2010 is very welcome for many business owners. The relief effectively allows business owners to sell their business interests and only suffer tax at 10%. Unfortunately the rules regarding Entrepreneur's Relief are quite complicated and many business owners may not be entitled to the relief on their business assets or business interests.

For example company shareholders need to ensure that they meet the qualifying conditions for at least 12 months prior to the sale. Shareholders owning less than 5% of the issued share capital and voting rights of a trading company wouldn't qualify and so could consider looking to increase their holdings for at least 12 months prior to sale. Providing that they are also an officer or employee of the company in the 12 months prior to sale they would qualify for Entrepreneur's Relief.

Will it be a tax efficient Furnished Holiday Let?

We reported in the last edition of Pay Less Tax that the favourable Furnished Holiday Lettings tax rules are to be around a little longer. Rather than continue with the withdrawal of the rules proposed by the previous Government, the Chancellor, George Osborne, cancelled the proposals in his June Emergency Budget.

Over the summer the Government published a consultation document about plans to change the tax treatment of furnished holiday let property from April 2011. The proposals seek to make it more difficult for properties to qualify as Furnished Holiday Lettings and take away some of the current favourable treatment:

- The Government proposes to make it harder for properties to qualify by increasing the days that the property must be available for let, to 30 weeks per annum, of which it must be actually rented out for 15 weeks. This could be problematic for some holiday homes that are only rented out over the summer.

- They also propose to restrict how easy it is to use losses arising from a UK holiday home or one in the European Economic Area (EEA). Losses arising from Furnished Holiday Lettings can currently be set against any other income. It is proposed to restrict losses so that they can only be set against profits from the same Furnished Holiday Letting business. Properties in the UK will be treated as separate businesses to those in the EEA in this respect. This could have a significant negative impact on some landlord's cash flows.

What next?

Although we won't know the outcome of the consultation process for some time, it is worth considering what action should be taken now.

- If you have a holiday home in the EEA, then consider whether it will qualify as a Furnished Holiday Let now and what reliefs and claims can be made to save tax.
- If you currently have a holiday home, whether in the UK, or the EEA
    - Then it is worth considering whether it is likely to continue to qualify as a furnished holiday home under the proposed changes.
    - Consider whether losses can be generated prior to April 2011, perhaps if you are planning to spend money on the property or furniture.
    - Where you have incurred losses, then it is worth reviewing whether these losses can be fully utilised against other income before April 2011.
- Properties that currently qualify as a Furnished Holiday Lets (whether in UK or EAA) are entitled to generous reliefs and rates for Capital Gains Tax. If you are thinking of selling your property, and it may not qualify as a Furnished Holiday Let after April 2011, then you may wish to dispose of it prior to April 2011 to take advantage of the generous rates and reliefs.

Despite the proposed changes, Furnished Holiday Lets still look like they will be one of the most tax efficient property investments around. If you have any queries about your circumstances or the changes please do not hesitate to contact us.

Tip

If you own a property in the European Economic Area (EEA) then please let us know. We can review the full circumstances; check that the property qualifies as a Furnished Holiday Home, and what tax benefits can be claimed.

Tip

If you are lucky enough to own a Furnished Holiday Home in the UK or the European Economic Area (EEA) that has significantly increased in value since you acquired it, then you may wish to crystalise the gain now and "bank" the favourable Capital Gains Tax reliefs. There are various options to crystalise the tax depending upon your personal circumstances, including selling to a limited company, or perhaps a trust.

Quick Tax Tips

Bank Inheritance Tax relief on selling your company

If you are looking to sell your company, then you may be able to preserve your current Inheritance Tax position, rather than lose a valuable relief. You could settle your shares in trust and secure the business property relief available on the shares which could effectively wipe out the Inheritance Tax on their value. As long as the shares are settled in trust prior to the sale of the shares, then it may be possible to preserve the relief, known as business property relief, so that no Inheritance Tax would be due on the proceeds.

Quick Tax Tips

Pensions from Parents or Grandparents

Pensions can be a very tax-efficient way of saving for your grandchild or child. As they have no earnings, then a maximum of £2,880 a year can be paid into a pension scheme for them, which the government then tops up to £3,600 a year. Starting a pension so young could make a huge difference to a grandchild or child's future. Financial advice should be sought before taking any action.

The contributions could not only help the next generation avoid their own individual pension crisis, it can help grandparents or parents avoid inheritance tax too.

The obvious downside of contributing to your grandchild or child's pension is that they won't reap the benefits of it until a long time in the future. The upside is that, it may be much better than a savings account or Child Trust Fund that provides them with a relatively large amount of cash when they're 18, which they could just blow in one go.

Quick Tax Tips

Parties can save tax

Around this time of year some people may be starting to think about booking their Christmas party, if they haven't already. Even the smallest of businesses can provide annual tax free events for employees. The costs of the party itself will be allowed against business profits for tax purposes. As long as the annual cost of all events per employee are less than £150, then the employees are not taxed for having a good time. In practice HM Revenue & Customs generously (These are words you don't often see together "HM Revenue & Customs generously") define employees as including; current employees, retired employees, and partners of existing and past employees.

Quick Tax Tips

Ensure that you retain proper VAT invoices

A number of recent tax cases going through the courts have reinforced HM Revenue & Customs unsympathetic stance on accepting reclaims for input VAT in the absence of proper VAT invoices. Invoices that do not show a VAT registration number or miss other details are unlikely to be accepted by HM Revenue & Customs. It is not only important to ensure that invoices are correct, but also that they show all the required details for VAT purposes.

We can help

We only have space in this newsletter to focus on some of the main tax saving opportunities, however there are many more to consider. 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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