

It was a low key affair

On the day the UK media focussed on the controversial vote increasing University tuition fees, and student protests, the Coalition Government issued hundreds of pages of guidance, comments, consultation documents, ministerial statements and draft legislation for 2011.

Although some information had already been dribbled out over the preceding days, there was still a lot of new details which could have a significant impact on taxpayers.

As a lot of the details are still draft we do not intend to dedicate this issue of Pay Less Tax to the proposals. However we will mention the proposed changes where appropriate in articles. 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!

Quick Tax Tips

Save Tax on selling the business premises!

Are you in the process of selling or about to sell the business premises? With such transactions there are always tax issues and the amounts involved can be quite significant.

The first complication to consider is should VAT be charged on the sale? This can depend upon a number of aspects, including whether input VAT was reclaimed on the acquisition or development of the property.

A second complication is that there may be tax on the uplift in the value of the property. Consideration needs to be given to whether this tax can be mitigated and whether any action is required prior to the sale? It may be too late to make some tax savings after the sale goes through.

Finally, it may be possible to increase the proceeds received for the sale of the property. If a claim for Capital Allowances on integral fixtures to date has not been made, then it may be more beneficial not to claim the allowances in order to negotiate a higher selling price. The purchaser may be able to claim allowances on a much higher figure than you ever could.

This may become a very important part of the sale negotiations. We would be delighted to discuss further how you can save tax on the sale of the business premises.

Quick Tax Tips

Training costs - are you missing the point?

It can be more tax efficient for an employer to pay for training than employees paying themselves.

Where an employer provides one of their employees with work related training, the cost of providing the training is tax deductible for the employer. In addition to that, the cost of the training isn't taxable upon the employee. By structuring payments this way the employee can save money and the employer can obtain a tax deduction for the costs, as well as having a more skilled workforce.

Many employers, including the NHS still don't make full use of this tax exemption and their workers may have to pay for training costs, trying to claim a personal tax deduction themselves. Unfortunately the rules for employees are much stricter and more often than not they cannot claim the training costs against their employment income for tax purposes. It can often make sense to include training costs as part of a salary negotiation and employment package. For more information on what needs to be done please contact us.



Q Quick Tax Tips

Consider a scholarship scheme

A little used planning opportunity is that of the Sponsored Student. Many employers find this an excellent method of recruiting the right employees and retaining them throughout their training and into long term careers. A scholarship is a series of regular payments which would normally be treated as the income of the student.

However payments up to £15,480 can be made free of Tax and National Insurance by an employer to an employee for periods of attendance on a full-time educational course at a recognised educational establishment for at least one academic year, including 'sandwich courses'. The payment can be made to cover lodging, subsistence and travelling allowances but excluded from the exemption are any tuition fees payable by the employee and earnings made for the periods spent working for the employer during holidays or course time.

When is selling the family home not tax free?

You may think selling your home will never be a problem for tax purposes. Many of us have sold our residence at some time or another without worrying about paying tax on the sale. Unfortunately, as is so often with tax, it is not always that straight forward.

Problems can arise for anyone selling their home;

- a) If they didn't really move in to the home before selling,**
- b) If they are running a business renovating properties,**
- c) The garden is quite large,**
- d) Some or all of their home is used for business purposes,**
- e) They have rented their home out,**
- f) They own two or more homes, or**
- g) Where a married couple separate.**

Let's consider each of these problem situations in brief.

a) Moving in

When someone does sell their home they are entitled to a Capital gains Tax relief sometimes referred to as Principal Private Residence Relief. If all conditions are met then the relief wipes out the tax and there is no tax on the sale of the property.

To qualify for the very generous Principle Private Residence relief the rules state that the property should be either the main residence or part of the residence at some time during ownership. In theory you could move into the property one day and move out the next, as long as the property was your main residence for this period. However in practice it is not that easy.

A recent case of an individual buying a flat off-plan and claiming to move into it reminds us of the practical difficulties. The property was only owned for 5 months and in that time, the individual and his partner said that they had moved in and then back out as his partner didn't like living there. It was concluded that there was no clear intention to live there permanently as there was no evidence of them notifying banks, council and other parties, and the amount of electricity used was quite small.



T Tip

If a property is to be your home, make sure everyone knows and there is clear evidence, just in case circumstances do change.

b) In business of doing up properties

Where individuals buy properties to renovate and sell on, then this could be construed by HM Revenue & Customs as a business. In which case, the profits from the sale of the property would be taxed as a trade rather than under the Capital Gains Tax rules. As such the individuals would not be entitled to the generous Principal Private Residence Relief and could be liable to income tax and national insurance on the profits from selling the property.

T Tip

If running a business doing up properties and selling on then make sure you keep receipts for all expenses incurred, acquiring, renovating and selling the property. These can be claimed against the profit from the sale.

c) Large Garden

Although the garden accompanying a residence is normally covered by the Principal Private Residence Relief if it exceeds 0.5 hectares (1.24 acres) then Capital Gains Tax may be payable on the sale of the garden.

The other thing to bear in mind is if you sell the garden before the property and it qualifies for Principal Private Residence Relief then there will be no tax due on the sale of the garden. However sell the house first and you could be faced with a tax bill on the subsequent sale of the garden.

T Tip

If the garden is in excess of 0.5 hectares then ensure it is not treated as separate to the property. If it is fenced off separately then it may be worth considering taking the fence down and taking photos prior to the sale to prove that the land is part of the property and can be enjoyed from the property.

d) Use of home for business

If any part of the property is used exclusively for business purposes while you own the property then that part of the property will not qualify for the Principal Private Residence Relief and be liable to tax. For example if you had a room in your home that is a dedicated office for work purposes, then that room would not be exempt from Capital Gains Tax for the period it is an office.

The rules for the gardens differ slightly. If any of the garden and grounds are used for business purposes then again there could be a Capital Gains Tax liability, but we only look at how it is being used when it is sold.

T Tip

If you use any part of your property for business then you may wish to ensure that no part of the premises is used exclusively for business purposes. Hence if you do work in one room, by making sure that the room has dual purpose (business and personal) then there will be no tax on it.

T Tip

If any part of the garden is used for business while you own the property then consider if the use can be reversed prior to sale and ensure you have evidence of this.

e) Home is rented out

If any part of the home is rented out during the period of ownership then it is possible that Capital Gains Tax could be payable. The calculations could be complex and in many circumstances the tax liability may be minimal. However if only part of the property is rented out, while it is your main residence, then the income may be covered by "rent a room relief" and there may be no tax on the sale of the property.

T Tip

If you do rent out the property completely during your period of ownership it may be possible to calculate what the possible tax could be if you have an idea of the possible property value.

T Tip

There are a number of conditions to be able to claim rent a room relief, which include sharing the property with the individual renting the room. Providing the conditions are met then up to £4,250 rent can be received per annum tax free.

f) Two or more homes

If you own two or more properties, then deciding which one is your main residence may depend on your circumstances. Where you occupy a property as your main home then because Principal Private Residence Relief will reduce or wipe the tax out when you come to sell it, you are only allowed one main residence for tax purposes.

The other thing to bear in mind is that married couples or civil partners are only entitled to one main residence for tax purposes.

T Tip

Within two years of acquiring your second property, consider making an election for the new property to be your main home for tax purposes. You are entitled to change your mind within defined deadlines, so that you then elect for the first property to become your main home again.

Providing care is taken, it may be possible to wipe out significant amounts of Capital Gains Tax on the second property when it is sold.

T Tip

Although a bit extreme if you do miss the deadline for making a claim, acquiring a third property starts the clock again and a claim can be made within two years of the third property being acquired

If both parties to the marriage or civil partnership own properties, then when they marry they may need to consider making an election to confirm which property is their main residence to help minimize Capital Gains Tax on the eventual sale of one property. .

g) Separation and divorce

If you are in the unfortunate position of splitting up, whether married or civil partners, then ignoring tax could add unwelcome tax bills to the costs of splitting up. Before a married couple or civil partners separate, all transfers of assets between them are usually free of Capital Gains Tax, irrespective of what monies pass between them.

However once a spouse leaves the family home, then this tax exemption is lost after the end of the tax year in which they separate. This can result in an unexpected tax liability on the eventual sale or transfer of the property, which may be alleviated by a Revenue concession, but not always.

T Tip

If you are separating, take advice early and ensure that unexpected tax bills don't arise.

Q Quick Tax Tips

Make reduced values work for you

With a reduction in the value of many companies and many stocks and shares losing value, make sure you keep on top of claims that can be made. By making a negligible value claim now you could reduce your tax bill at a time where cold, hard cash is more valuable than ever. By keeping on top of your investments and monitoring losses in value you can save yourself money at a time where it is hard to hold onto your cash.

Q Quick Tax Tips

You can reclaim VAT on entertaining overseas customers once again

After a recent European case, HM Revenue & Customs have changed their mind whether input VAT can be reclaimed on entertaining overseas customers. In 1988 UK law was changed to stop businesses reclaiming VAT on entertaining overseas customers. In light of the recent case HM Revenue & Customs have now concluded that they need to change the law back to be consistent with European Law.

The Government intend to change the law to allow VAT to be reclaimed on entertaining overseas customers. In the meantime HM Revenue & Customs will consider claims for past entertaining. The welcome change only affects entertaining overseas customers. It is still not possible to reclaim VAT for entertaining UK customers or overseas contacts who are not customers.

H Hot off the Press

Get tax back on plant integral in your building!

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 provide 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.

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.

Stevens & Willey

Grenville House, 9 Boutport Street, Barnstaple,
Devon EX31 1TZ

Tel: 01271 321621
Fax: 01271 325412
Email: mail@321621.co.uk
www.stevensandwilley.co.uk

Disclaimer: This pay less tax report is provided for clients of AVN accountants and has been written for general interest. No responsibility for loss occasioned to any person acting or refraining from action as a result of any information contained in this edition is accepted by the authors. AVN Tax LLP, or any associated business. In all cases appropriate should be sought before making a decision. The content is correct at time of going to press 20th December 2010.