

## Government talk of simplifying the Tax system

George Osborne true to his word included most of the tax changes within his Budget speech, rather than hiding them away in the numerous documents that accompany the Budget. However the documents do include hints of what is to come, and talk of simplifying the tax system.

This is easier said than done with the complexity and size of the UK tax laws. The Conservatives have already tried to simplify the Tax system in the past. In 1996 the Conservatives commenced the Tax Law Rewrite to simplify the tax system. Although it was acknowledged that the size of the task was immense, it was expected to take a mere five years. In July 2009, some 13 years later, the project came to an end, although some areas had not been touched, such as Capital Gains Tax and Inheritance Tax.

As everyone's circumstances are different, and the rules are complex, we would be delighted to talk to you in detail about how the rules apply to you and how we could help you save tax. We want to help you pay your fair share of tax... and not a single penny more!



### Quick Tax Tips

#### Review your business structure regularly

How your business is structured can have a dramatic effect on your annual tax bills. In the early years of a business it may be more advisable to be a sole trader or partnership. However as profits increase there can become a time when transferring the business into a limited company can make more sense. The tax savings alone can be quite substantial.

If the business is breaking into new markets or establishing a new product then by structuring this new business separately from the main business, you may save thousands in tax on the new profits.

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

### Quick Tax Tips

#### Tax savings could fund University

If your child is starting University this Autumn, have you considered buying them a house? A little more generous than you were anticipating? Well, if your child owned a reasonable size property in their own name, they could let out rooms to other students. The rent they receive could be used to fund their University education.

Still not interested? Well, they may be able to enjoy tax savings which could also help with their University education. Providing certain conditions are met and records maintained then they may be able to receive up to £4,250 rental income tax free. This is known as rent a room relief. If the rent exceeds this amount then the profits from renting can be taxed on an alternative basis, which may produce a lower tax bill.

If the property is their main residence throughout their period of ownership, then when they do eventually sell it would be free of capital gains tax. It may be possible for you to lend your child the money to buy the property and have a charge over the property to protect your monies, or consider the use of a trust. While the tax savings could be significant, and it may be possible to pick up a bargain property, the decision should not be taken lightly in the current climate. Should you not wish to purchase the property, then the rent a room relief can still apply if your child rents a whole house and then sub lets rooms.

## Online statements

It's not quite a tax saving tip, but taking the advice could save you money. Many banks and businesses are encouraging you to receive online bills and statements, rather than sending paper copies in the post. If any statements, bills etc are used to prepare your tax return you will need to retain copies to support the return.

You may not have access to the online statements and information indefinitely. Some businesses are only making a rolling six months of statements available. If you don't download and store copies of statements as you go then you may need to pay for copy statements at a later date. It can therefore save you money by getting into a habit of downloading statements and documents throughout the year, as well as storing them and backing them up.

## When a mobile phone starts to cost

In theory where an employer provides a mobile phone to an employee the employee is not liable to tax on the benefit, nor is the employer liable to national insurance on the phone provided. Sounds simple, but as ever the rules are complex and there are a number of pit falls that will catch the unwary.

### The main traps to be aware of are:

- Where the contract is not between the employer and the phone company
- Where the phone is a Personal Digital Assistant (PDA)
- Where more than one phone is provided

### Contract

In order for there to be no potential tax issues for the employee, the contract for the provision of the mobile phone and airtime must be between the employing business and the phone company. If not then there could be significant tax issues.

It is not always as simple as checking the bill. Although the bill may show the employers name and address, the mobile phone contract may be a personal one between an individual and the phone company (personal contract).

If the employer then pays these bills, the amounts paid are treated as payments of net salary to the individuals on which National Insurance will become due.

The tax treatment will depend upon whether the employer pays the bill directly or reimburses the employee for the phone bill. Either way the employee will suffer some tax on the amounts paid by the employer.

The only way to avoid this problem is ensure that the mobile phone contract is between the employer business and the phone company.



### Personal Digital Assistant (PDA)

The phenomenal rate that technology has advanced has resulted in significant changes to the size and functionality of mobile phones. Unfortunately the tax legislation has not changed with the technological advances.



The tax rules treat mobile phones and computers provided to employees differently. If a mobile phone is provided then a tax benefit will not arise on the employee, irrespective of whether they make personal calls on the mobile phone or not.

If a computer is provided for purely business purposes then no benefit will arise on the employee. However if there is significant private use of the computer then a benefit in kind will arise on which the employee will pay tax. There is no definition of what is significant use and this will be decided on a case by case basis.

Why should we worry about computers? Well the legislation definition of a mobile phone is very tight. For the phone to be treated as a mobile phone it must have been designed primarily for transmitting and receiving spoken messages.

Mobiles that play music, surf the internet, receive emails and play games, such as a Blackberry or an iPhone, are considered by HM Revenue & Customs to be computers, rather than mobile phones.

Why is this a problem? If the mobile phone is classed as a computer then there is a chance of the employee being liable to tax on the phone, depending upon the amount of private use.

### More than one phone

If an employer provides two mobile phones to an employee, extra care is required. If the phones provided are both classed as mobile phones per above, then the employee would be liable to tax on the second phone, assuming that the first phone met all the conditions and the contracts are between the phone company and employer business.

However if both phones are treated as computers, then the employee may be liable to tax on the two "computers" depending upon the level of private use. The interesting thing is that if one handset is classed as a mobile and the second as a computer then providing any private use is on the mobile only, or any private use on the computer handset (PDA) is not significant then the employee would not be liable to tax on the handsets.

Providing there is no tax bill for the employee then there will be no corresponding National Insurance liability for the employer business.

## Furnished Holiday Letting rules with us a little longer

The favourable Furnished Holiday Lettings tax rules are to be with us until April 2011 at least. Rather than continue with the withdrawal of the rules proposed by the previous Government, the Chancellor has cancelled the proposals.

However, the Government is to publish a consultation document over the summer about plans to change the tax treatment of furnished holiday let property from April 2011. The consultation will look at issues that:

- ensure the Furnished Holiday Letting rules apply equally to properties wherever they are in the European Economic Area;
- increase the number of days that qualifying properties have to be available for, and actually let as, commercial holiday letting; and
- change the way in which Furnished Holiday Letting loss relief is given.

We will know more about future changes as the consultation progresses. In the meantime there are a few things to remember:

- Holiday accommodation in the European Economic Area that meets the conditions can be classed as a Furnished Holiday Letting, and perhaps save you tax. The conditions include the property being actually let for at least 70 days a year and not more than a continuous period of 31 days to the same tenant.
- Losses arising from Furnished Holiday Lettings can be set against other income.
- Should the property be sold then it may be possible to
  - roll over the gain into a further property or business asset, or
  - reduce the gain by Entrepreneurs Relief

If you have any queries about your circumstances or the changes please do not hesitate to contact us.

## Quick Tax Tips

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 crystallise the gain now and sell the property. There are various options to crystallise the tax depending upon your personal circumstances, including selling to a limited company, or perhaps a trust.

## Quick Tax Tips

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

## Hot off the Press

### Fuel rates for company cars increase from 1st June 2010

HM Revenue and Customs have issued new advisory fuel rates for use from 1st June 2010. 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 June 2010 until further notice:

Engine Size	Petrol	Diesel	LPG
1400cc or less	12p	11p	8p
1401cc to 2000cc	15p	11p	10p
Over 2000cc	21p	16p	14p

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.

Where mileage rates are paid for business journeys and adequate records are maintained then it is possible for a VAT registered business to consider reclaiming VAT on the amounts paid. The VAT that can be reclaimed can only be on the proportion of mileage allowance that relates to fuel. The employee will need to supply VAT petrol receipts in order to allow the business to reclaim the VAT.



**Q Quick Tax Tips**

**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.

**H Hot off the Press**

**Save tax with advanced tax planning**

We have teamed up with the very best tax experts in the UK to bring leading edge advanced tax planning strategies to you. These strategies can save many thousands of pounds in tax. For companies that are looking to pay their key employees/directors in excess of £100,000 in discretionary bonuses and have the cash available, then there are strategies that could result in significant savings. We offer a remuneration review to identify the possible tax savings on some alternatives to bonuses and dividends.

**Q Quick Tax Tips**

**Ensure your children max out**

All individuals, including children, have an annual exemption for Capital Gains Tax (£10,100 in the tax year 2010/11). Investments or assets where only capital growth occurs may well be a tax efficient way of parents passing funds to their children, and ensuring the use of children's allowances are maximised. A Bare Trust arrangement is one way of ensuring control is retained as far as possible.

Care is required, because if a child's income exceeds £100 per annum from monies or an investment received from their parents, then the income may well be taxable on the parents, rather than the child. On the other hand if the monies come from other relatives, such as grandparents, then there are no such rules. If you are considering this please contact a professional adviser to discuss this before implementation to ensure that the planning is effected properly.

**H Hot off the Press**

**National Minimum Wage rates increase in October**

The National Minimum Wage will increase from 1st October 2010 to:

- £5.93 for workers aged 21 and over, (currently £5.80 for workers aged 22 or over)
- £4.92 for workers aged 18 to 20, (currently £4.83 for those aged 18 to 21 inclusive)
- £3.64 for workers aged 16 to 17, (currently £3.57)

From October 2010 there will be a new apprentice minimum wage of £2.50 per hour, which will apply to:

- Apprentices under 19
- Apprentices aged 19 and over, but in the first year of their apprenticeship.

In a recent court success for HM Revenue & Customs it was confirmed that employers must pay their employees at least the National Minimum Wage regardless of any tips, gratuities, service charges or cover charges if they are not paid by the employer to workers through the employer's payroll.

**We can help**

Despite the simplicity of the changes in the Emergency Budget for 2010, the UK Tax legislation remains one of the most complicated in the world.

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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