

Botting & Co Ltd News

September 2006

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TAX DEADLINES

19 September

PAYE & NIC to reach HMRC for month to 5 September.

22 September

Electronic payments of PAYE & NIC to reach HMRC for month to 5 Sept.

30 September

Tax Returns completed on paper to be submitted to allow tax due up to £2,000 to be collected through 2007/08 PAYE coding.

1 October

National minimum wage adult rate increases to £5.35. Age discrimination regulations come in to force. Corporation tax due for small companies for year to 31 December 2005.

5 October

Inform HMRC of new sources of income or gains if no Tax Return received for 2005/06.

19 October

Income tax and class 1B NIC due under PAYE Settlement Agreements for 2005/06. PAYE & NIC due for month to 5 October and 2nd quarter 2006/07.

20 October

Electronic payments of PAYE & NIC to reach HMRC for periods to 5 Oct.

2 November

Submit forms P46 (car) for quarter ended 5 October.

18 November

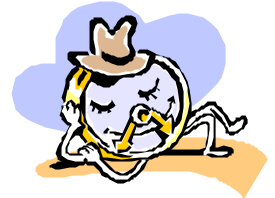
PAYE & NIC to reach HMRC for month to 5 November.

22 November

Electronic payments of PAYE and NIC to reach HMRC for month to 5 Nov.

Don't be caught by the POAT!

Under inheritance tax (IHT) rules when you give away your house and move out, there is no inheritance tax to pay on the value of that property if you die more than seven years later. The same seven-year rule also applies to large cash gifts.



Unfortunately since 6 April 2005 the pre-owned asset tax (POAT) can bite into those tax-free arrangements if you later occupy the house which you gave away, or live in a property that has been purchased with your cash gift. The POAT imposes an income tax charge on the benefit that you receive from living rent-free in the property. The POAT charge is designed to discourage people from giving away property to avoid inheritance tax, but who continue to enjoy it in some form.

Wait for seven years
or pay the POAT

Say you sell your house for £400,000 and give the proceeds to your son to buy a bungalow for you to occupy. The bungalow has an open market rent of £7,500, so when you move in you are liable to pay an annual income tax charge under POAT of £3,000 (£7,500 x 40%). However there are several ways of avoiding this charge:

- Pay the full market rent for the bungalow to your son for every year you live there, which at least keeps the money within the family. However you son will have to pay tax on this income;
- Elect for the bungalow to be treated as part of your estate, so your relatives pay inheritance tax on the value when you die, but this does have capital gains tax implications for the legal owner of the bungalow - your son;
- Find a property where the market rent is less than £5,000 per year, as a benefit below this value is exempt from the POAT;
- Wait seven years between making the cash gift to your son and moving into the property he buys for you; or
- Ask your son to use your gift to build an annex on his existing home for you to live in, rather than buying a separate property.

There are many other complicated situations where the POAT charge can apply, so if you are planning to change your living arrangements after making a large gift, please talk it through with us first.

Tax Tip

If your business property has a rateable value of less than £15,000 you may qualify for a refund on your business rates, but you must claim by 30 September 2006 for the 2005/06 year.

Smaller properties with rateable values of less than £5,000 qualify for proportionally bigger refunds.

Claim your business mileage

Does your employer reimburse you for the cost of business journeys? If you use your own car and fuel, your employer can pay you 40p for each business mile driven up to 10,000 miles, and 25p per mile for additional business journeys in the same tax year. These payments are completely tax free in your hands.

If your employer gives you a lump sum to cover your car expenses, which works out at less than 40p per business mile driven, claim the extra due on the employment pages of your self-assessment tax return. If you are not sent a tax return form you can claim the extra mileage expenses on form P87 which can be downloaded from the HMRC website: <http://www.hmrc.gov.uk/forms/p87.pdf> or ordered by ringing: 0845 9000 404.

This newsletter is written for the general interest of our clients and is not a substitute for professional advice. Please contact Botting and Co Ltd before taking any action.

Holiday home abroad

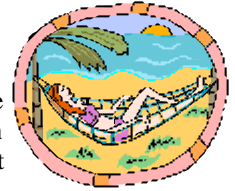
Did you go window-shopping for a holiday home while abroad this summer? It is very tempting to snap up an apparently cheap property, but you should take advice about how to hold the property or you can end up with some high tax charges.

If you buy the foreign property in your own name you may have to pay the following taxes:

- VAT on acquisition of a new property;
- Stamp duties or similar transfer taxes;
- Tax on the right to live there, (La Renta in Spain);
- Capital gains tax on disposal, (in both countries);
- Inheritance tax with no spousal exemption.

French properties are also subject to forced succession rules, so you are not free to leave the property to whomever you want to.

To avoid some of these problems you may consider buying the property through a UK company, or in France: a Société Civile



Dreaming of a place in the sun?

Immobilière (SCI). However these vehicles bring their own problems. In particular if you use a non-resident company to hold property in France or Spain you must pay a 3% annual charge based on the market value of the property, although you may be able to claim some double tax relief.

If the property is held through a company in which you are a director, or where the directors act on your instructions, you can be taxed on the benefit of having the property available for your use. This even applies to a French SCI, which HMRC treat as a company for UK tax purposes, although it is not treated as such under French law. This mismatch in tax laws means that French taxes paid by members of the SCI cannot be relieved in the UK.

Rethink for family trusts



In our May 2006 newsletter we highlighted the Budget proposals for trusts set up for children. The proposals have now been made law and the Government's position is clear: funds held in trust should be given to the child when he or she reaches age 18.

Before Budget day accumulation and maintenance (A&M) trusts could be set up by grandparents for their grandchildren or by parents under their Wills. The funds would be used for the maintenance of the child and the trustees would not normally pay out any capital until the child became 25. The terms of all these existing trusts must be reviewed before 6 April 2008 to see how the funds can be best distributed either at age 18, or at 25 with a small tax charge, or held with continuing tax charges.

New A&M trusts cannot be set up, but trusts for a bereaved children set up on the death of one or both parents are possible.

Incorporation is still worthwhile

From 1 April 2006 the corporation tax rates for small companies were standardised at 19%, but this is still less than 22% or 40% income tax which is paid by individuals who trade in their own name, without a company.

If you make profits of around £50,000 per year you can still save about £5,000 in tax by doing business through a company rather than as a sole-trader. If your profits are in the region of £20,000 a year you may save about £1,400 by incorporating. These tax savings assume that you withdraw most of the profits from your company as dividends, which works well for a single person company. If you run your business with your spouse the methods of incorporation and withdrawing profits require more care.

In addition if you have school-age children you can give yourself £2,860 per year in tax free childcare vouchers, as an

employee of your own company. These vouchers can be used for a range of out-of-school care, such as holiday clubs and even music lessons, if the teacher is an approved childcare carer.

Using a company can also make the business look more established and substantial, which can be important when you are dealing with new customers and suppliers. In some business sectors customers insist on dealing with a company and will not buy services from individuals operating in their own name.

There are drawbacks in operating your business as a company. There is more administration, as you need to complete two tax returns: for you and for the company. You also need to complete returns for Companies House, and operate a PAYE scheme, but we can help you with that.