Botting & Co Ltd News

October 2007

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Tax deadlines

31 October
Accounts for companies with year end 31 December 2006 must be submitted to Companies House.

2 November
Forms P46 (car) for quarter to 5 October must be with HMRC.

19 November
PAYE & NIC due for month to 5 November.

22 November
Electronically paid PAYE & NIC must be with HMRC for month to 5 Nov.

19 December
PAYE & NIC due for month to 5 Dec.

21 December
Electronically paid PAYE & NIC must be with HMRC for month to 5 Dec.

30 December
File personal tax return for 2006/07 by Internet to have tax due of up to £2,000 included in your 2008/09 PAYE code.

2008

1 January
Corporation tax due for small companies with accounts to 31 March 2007. VAT at 5% due on cost of renovating homes empty for two years or more.

18 January
PAYE & NIC due for month to 5 January, and for 3rd quarter 2007/08.

31 January
Submit personal tax return for 2006/07, or receive automatic fine of £100. Final income tax and CGT due for 2006/07 year plus first 'on account' tax payment due for 2007/08.

5 April
Taper relief and indexation allowance abolished for disposals after this date.

6 April
New tax rules for non-domicile UK residents come into force. CGT at 18% applies to all capital gains made by individuals, trustees and PRs.

The Pre Budget Report

This was Chancellor Darling's first go at a mini-Budget speech and it was full of political gestures and a few surprises. The biggest vote winner must be the changes to inheritance tax (see page 2), but that won't solve everybody's IHT problems. There was no concrete news on changes to small business tax following the Arctic Systems case, but legislation is promised before April 2008.

There may well be further details to emerge as legislation is published, such as the mysterious promise of measures to bring empty residential properties to market. However, this could have been a veiled reference to the change in the rate of capital gains tax from April 2008, which could encourage owners of buy-to-let properties to sell up (see below).

Sell now or sell later?

May be better to wait until 6 April 2008

The big surprise in the Pre Budget Report was the new 18% rate of capital gains tax, which will apply to all gains made by individuals and trustees from 6 April 2008. This replaces taper relief and indexation allowance which both work to reduce the total taxable gain.

If you hold business assets for at least two years, the capital gain created on their disposal is discounted using business asset taper relief by up to 75%. That makes the effective tax rate just 10% tax for a higher rate taxpayer, or 5% for a basic rate taxpayer. For sales made after 5 April 2008 the tax rate will be 18% for everyone. That's an increase of 80% in the total amount of capital gains tax payable on the deal for higher rate taxpayers and an increase of 260% in the tax payable for basic rate tax payers!

If you are planning to sell your business, or an asset used by a business such as a commercial let property, which you have owned for at least two years, you may save up to 80% of your tax bill if you sell before 6 April 2008. The exact calculation of the tax due on the sale will depend on how the business has been owned, or the property has been used for the last ten years, so ask us to check the potential tax bill for you.

The new 18% rate of capital gains tax may be good news for anyone selling a non-business asset, such as a buy-to-let property, or quoted shares. At present the maximum the capital gains tax bill can be cut to for non-business assets held for 10 years is 60% of normal rates, which works out at 24% for higher rate taxpayers and 12% for basic rate taxpayers. If you expect to make a large gain on a non-business property, it may be better to agree the sale after 5 April 2008 to save at least 25% of your potential tax bill, possibly more, but do ask us to check the figures first.

The annual capital gains exemption (£9,200 for 2007/08) will be retained into 2008/09 and it will be indexed with inflation. So when you make relatively small gains in a single tax year they will normally be tax free. However, this allowance is not transferable between spouses, so putting a property into joint names before sale can still save tax.

Inheritance savings for couples

IHT worries may be eased

Inheritance tax (IHT) worries a lot of people, because the IHT threshold, known as the nil-rate band, has not been increased in line with house prices over recent years. When you die all your wealth, including the value of your house, is taxed at 40% on all amounts above the nil-rate band, which is currently set at £300,000.

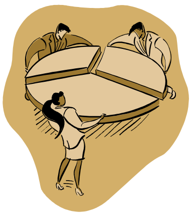
If your house is jointly owned the actual wealth in your hands alone may be less than the £300,000 threshold. When you or your spouse die and leave everything to the survivor there is no IHT to pay, as wealth inherited by a UK domiciled spouse is exempt from inheritance tax. However, when the surviving spouse dies there is usually a large IHT bill to pay as all the wealth previously owned by the couple is now in the hands of one person, with only one nil-rate band to use.

The Chancellor has tried to solve this problem by allowing any unused nil-rate band, on the death of the first spouse, to be transferred to the widow or widower who dies after 8 October 2007. That gives a total inheritance tax exemption for a married couple (or civil partners) of £600,000 (for 2007/08) rising to £700,000 for the tax year 2010/11.

Say Fred died on 1 October 2007 with an estate worth £500,000. His executors will be required pay IHT at 40% on £200,0000 (£500,000 – £300,000) amounting to £80,000. If Fred dies on 1 November 2007, and his wife did not use her nil rate band when she died previously, he has the benefit of two nil rate bands totalling £600,000. Now Fred's executors will pay no IHT at all on his estate of £500,000.

This inheritance tax change does not help couples who are not married or in a registered civil partnership, so if you are in that position please talk to us about IHT planning soon.

Sharing profits in family businesses



Who gets what share of the profits?

Family businesses have been waiting anxiously for the full Government response to the triumphant win by the taxpayer Mr Jones in the Arctic Systems case. The day after the House of Lords judgement the Treasury minister said they would act against couples who indulge in income splitting in an unfair way.

The Government has now changing the description of this unacceptable behaviour to *income shifting*, defined as where one person diverts their income to a second person who is subject to tax at a lower rate, to obtain a tax advantage. The Pre Budget Report indicates that new legislation to tackle *income shifting* will take effect from April 2008, but it will only apply to income paid in the form of company dividends or partnership profits. Thus paying your spouse a fair salary for work done will not be attacked.

The exact details of how the income shifting rules will apply are open to consultation, but the factors that may be taken into account include:

* The work done in the business by each person;
* The amount of capital each person contributes to the business; and
* The business risks each person takes.

We believe it is going to be very difficult for HMRC to look inside small businesses and decide who does what work for the business, but the law may force you to keep records to prove your innocence. Lets talk about what evidence you could keep.

Income tax and National Insurance

Personal allowances

The Pre-Budget Report is normally when all the national insurance rates and personal allowances are announced for the next tax year. However as the Pre-Budget Report was so early this year those figures were not quite ready. By law the annual increases must be based on the inflation figures for the year to September, which will be released around 16th October, so the new allowances for 2007/08 will be announced sometime after that date.

Holiday pay

There is currently an exemption from national insurance on holiday pay paid by third parties. This exemption was designed to be used in industries such as construction where there is high staff turnover, but it has been abused in many other trade sectors. The facility to pay NIC free holiday pay will be withdrawn in most circumstances from 30 October 2007, but it will be retained in the construction industry for five years.

Payments on account

When personal tax self-assessment was introduced in 1995/96 individuals were not required to make on-account payments of tax within the tax year unless:

A) their tax bill for the year was £500 or more; or

B) less than 80% the tax due was deducted at source (such as under PAYE).

The tax level in A) has not been changed since 1995, but it will now be doubled to £1,000 for 2009/10 to take effect for tax payments due on 31 January 2010 and 31 July 2010. This change will help self-employed taxpayers who have relatively small tax bills, but at present have to pay small amounts to HMRC at least three times a year.