July 2007

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Is the Revenue cracking down on let property?

There have been some alarmist newspaper articles recently claiming this is the case, but the Revenue have denied there is any campaign in this area. However, they are aware that many buy-to-let landlords do not complete their tax returns correctly.

Claim only correct deductions to deter tax investigation

There are possibly 500,000 landlords letting residential property in the UK, but the Revenue only receive 300,000 land and property pages where individuals report income from a let property. Some people hold their let property through a company, in which case the rental income should be reported on the company's tax return not on the individual's, but others just forget to tell the Revenue about their lettings.

If you let a property, even one that used to be your main home, you must report the rental income on your tax return. This applies whether or not you actually make a profit from the letting. The income and all tax deductible expenses have to be shown to tell the Revenue you have made a loss for the year. You generally cannot set that loss against your other income, unless the property is regularly let as furnished holiday accommodation, but you can carry the loss forward to off-set against future profits from a lettings business. If you don't claim the loss you won't be able to use it in the future.

The other problem is that landlords make mistakes about what to deduct as expenses from the rents received. Valid expenses include the costs of running the property from day to day, such as a management agent's fees, repairs, advertising for tenants and insurance. Tax deductible expenses do not include the costs of acquiring the property, such as stamp duty, estate-agent's, or solicitor's fees.

The interest you pay on any loans or mortgages connected with your lettings business is deductible, but not the repayment of the capital borrowed. If you have a repayment mortgage you must only include the interest part of the monthly payments on your tax return. The lender should break down the total you pay over a year into interest and capital repayments, and show this on your annual mortgage statement. We can help you make the right claim on your tax return for all your letting expenses.

Warning for subcontractors

If you apply for gross payment status under the New CIS, using the internet or by phoning the Revenue, you may find your application is turned down. We understand the CIS computer system has been rejecting applications where there has been only one late payment of tax. This is incorrect as one late tax payment should not make your application for gross payment fail. If your application for gross payment status has been rejected we can help you appeal.

Practice News

The partners are delighted to announce that after 12 years at 20 Billing Road we will be relocating this autumn to larger purpose-built offices situated at 19 Queensbridge, The Lakes on Bedford Road. Full details of the new address and contact details will be confirmed nearer the time.

The practice has continued to grow in recent years, with the addition of three new partners in the last 18 months. Larger offices have been needed for some time to accommodate the growth in numbers of staff at the practice. It is especially pleasing for us to look forward to the future growth of the practice, following on from last year's successful centenary celebrations.

Tax deadlines

5 July
Final day to reach PAYE settlement agreement for 2006/07.

6 July
Last day to file forms P11D/ P9D for 2006/07 with HMRC and issue copies to employees. Also report shares, or share options awarded to employees in 2006/07.

19 July
Cheques for PAYE/NIC for periods to 5 July and class 1A NICs for 2006/07 must reach HMRC.

21 July
Electronic payments of PAYE/ NIC must reach HMRC.

30 July
Company accounts to **30 September 06** must reach Companies House.

31 July
Pay second on account tax instalment for 2006/07. Outstanding tax for 2005/06 attracts 5% surcharge. £100 fine for all outstanding 2005/06 tax returns. Must return renewal claims for Tax Credits.

2 August
Submit form P46(car) to report new or changed company cars in quarter to 5 July.

17 August
Cheques for PAYE/NICs for month to 5 August must reach HMRC

22 August
Electronic payments of PAYE/ NIC must reach HMRC.

19 September
Cheques for PAYE/NICs for month to 5 Sept 2007must reach HMRC

22 September
Electronic payments of PAYE/ NIC must reach HMRC.

30 September
Submit 2006/07 paper tax return for tax due of up to £2,000 to be included 2008/09 PAYE code.

Stop Press

It can now take several months to get your business VAT registered, so if your sales are creeping up towards the compulsory registration threshold of £64,000, please let us know ASAP. The VAT office also require a number of documents to support the registration application, which can delay the process if these are not provided

This Newsletter is written for the general interest of our clients and is not a substitute for professional advice. Please contact Cobley Desborough & Co before taking any action.

Thinking ahead to IHT

The price of the average house is apparently rising by £50 per day, that's £18,250 per year! This compares with the £15,000 increase in the inheritance tax (IHT) nil rate band from 2006 to 2007, which now stands at £300,000.

When you die everything you own, including your house, is valued and added to the value of any significant gifts you have made in the previous seven years. Deductions are made for funeral costs, debts such as mortgages secured on your property, and for gifts made to your spouse, charities or political parties and certain other organisations. If the net amount exceeds £300,000 (at current rates), the excess is taxed charged to IHT at 40%.

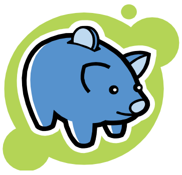
One way to ease the pain of the IHT charge is to split all of your investments equally between yourself and your spouse, including the ownership of your main home. This way you can both gift the first £300,000 of your assets to the next generation, or a trust, to take full advantage of the nil rate of IHT. The split in ownership of your main home will only work if it is held as *tenants in common* rather than the more frequently used method of holding property called *joint tenants*. However, the change to tenants in common can be made quite easily with the help of a solicitor.

Increased property values add to IHT worries

Another way to beat the IHT charge is to hold investments that qualify for business property relief so 100% of their value is excluded from the total subject to IHT. Shares in unquoted trading companies qualify for 100% business property relief once they have been held for at least two years. 'Unquoted' means the shares are not traded on the London Stock Exchange, but a listing on a junior market such as AIM, does not make the shares 'quoted'. It is thus possible to invest in some quite large and successful companies, which are only listed on junior stock markets, and protect your investment from IHT.

Any major change in your investments should only be undertaken with independent advice, and as part of a full IHT plan, so please talk to us first.

Should I take more dividend or a bonus?



Tax savings depend on the relative tax rates

When you run your own company you have a good deal of flexibility over how and when to extract profits from your business. You may take a basic salary and top up your income with a dividend or bonus once or twice a year. Which of these alternatives is more tax efficient depends on your highest tax rate, and the tax rate paid by your company. But these tax rates are changing, so the policy that saved tax previously may not work in the future.

If you pay tax at the basic rate of 22% and your company pays corporation tax at 20%, the tax saved by you and the company combined is significant where those funds are extracted as a dividend. This is because the dividend is free of national insurance and income tax in your hands.

Where the extra income you receive pushes your personal income into the higher rate tax band (taxed at 40%) there is still a combined tax saving by paying a dividend, if the company pays tax at 20%. However this tax saving will reduce as the corporate tax rate rises to 22% in 2009.

If your company pays the higher or marginal rates of corporation tax, (currently 30% to 32.5%) and you are already paying 40% on part of your income, there is no tax saved overall by paying a dividend rather than a salary.

Although a dividend is a tax efficient way to extract profits in most cases, there are alternatives. For example if the company uses a property, which is held in your own name, it can pay you a market rent which is free of national insurance. Ask us to look at how you could extract more profits from your company in tax efficient ways.

New company law for small companies

Many features of company law are no longer suitable for regulating modern companies. The Government has thus passed a completely new Companies Act, which is gradually being brought into effect in 2007 and 2008.

The biggest change for small companies is that the post of Company Secretary will be optional from 6 April 2008. Your current Company Secretary can resign from that date, although all the forms and registration documents they may currently deal with will still have to be completed and filed.

There are also changes for the post of Director. If you currently have young relatives registered as directors of your company they will have to resign if they are not aged at least 16 on 1 October 2008. The upper age limit for directors of 70 is abolished on the same date.

Some companies use another company to fill the post of sole director to protect the personal details of the owner. This will not be allowed from 1 October 2008, as there must be at least one real person acting as a director for each company. However privacy concerns have been met, and you will be allowed to use a service address for the publicly available company details. Although you must provide Companies House with your residential address, this will be kept on a private secure register.

There are also changes concerning the powers of directors to issue shares, the duties of directors and the meetings that should be held with shareholders. Ask us for more details.