COBLEY DESBOROUGH & CO

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Practice News

November will see Cobley Desborough move to brand new purpose built offices in Queensbridge near The Lakes on Bedford Road. The full address is: **Artisans' House**
7 Queensbridge
Northampton
NN4 7BF

As with any move, especially a new build, there is a degree of uncertainty over completion dates. It is anticipated that the move will take place during week commencing 19th November, with normal service resuming during week commencing 26th November. Rest assured that partners and key staff will continue to be available during the week of the move to deal with any urgent matters. In particular the payroll department will be available on telephone or email as normal during this week.

We will continue use the same telephone number of 01604 632233 and fax 01604 634435, and postal redirections will be in place. Where Cobley Desborough acts as your company's registered office, we will deal with the relevant notification of the change of address to the Registrar of Companies. Please contact us with any queries, otherwise we look forward to seeing you in due course at Artisans' House.

Capital Gains Tax changes

May be better to wait and sell after 5 April 2008

The big surprise in the Pre Budget Report on 9th October 2007 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! If you have owned any asset for ten years or more you may be further disadvantaged by the removal of the relief for the effect of inflation.

Where 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. 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 one quarter 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.

Tax deadlines

31 October
Accounts for companies with year end 31 Dec 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.
19 December
PAYE & NIC due 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% payable 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 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. CGT at 18% applies to all capital gains made by individuals.

Stop Press

If a company provides fuel for a company car the employee's tax charge is based on a percentage of £14,400, according to the CO_2 emissions of the vehicle. From 6 April 2008 the tax will be based on £16,900, which will increase the fuel tax charge by about 17%.

Inheritance Tax savings for couples

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 may be a large IHT bill 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.

Widows' IHT worries may be eased

Say Fred died on 1 October 2007 with an estate worth £500,000. His executors will be required pay IHT at 40% on £200,000 (£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.

The effect of transferring the nil-rate band could be achieved before this IHT change with the use of a discretionary will trust. If your will contains such a trust the will does not have to be rewritten, a change to by-pass the trust can be added as a codicil. Some trusts already take legislation changes into account and have a good deal of flexibility built in, in which case no action is required. In any event it is good practice to review the terms of your will every few years, to check whether your personal situation has changed since it was written.

Planning for the new capital allowances

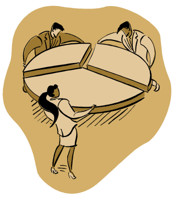
There are a number of changes to capital allowances that will take effect from 1 April 2008 for companies, (6 April 2008 for unincorporated businesses), which may influence your decision to buy or lease equipment over the next few months.

Currently you can claim a first year allowance of 40% or 50% for purchases of equipment. This will be replaced in April 2008 with an annual investment allowance (AIA) of up to £50,000 per accounting period. Where your accounting year does not run to 31 March the first AIA will be proportionally reduced. If your company year runs to 31 December 2008 you will get 9 months of the AIA (£37,500) for purchases made on or after 1 April 2008, plus the first year allowance at 40% or 50% for purchases before that date.

The writing down allowances for plant and machinery are also being reduced from 25% to 20%, but with a transitional rate for accounting periods that straddle 1 April 2008. For the accounting year to 31 December 2008 you will get a reduced writing down allowance at 21.25% on all your existing equipment, and on any new purchases that exceed the AIA. If you are planning a large purchase we should work out if it is best to buy before or after 1 April 2008, or before your current year end, so please talk to us first.

There are also changes to the tax deduction for the cost of equipment attached to buildings, called *integral fixtures*. Currently such fixtures qualify for a 25% writing down allowance, but for purchases after 31 March 2008 this allowance is reduced to 10%. We don't know exactly which assets will be classified as integral fixtures, but where the building contains a lot of equipment, it may be worthwhile sealing the deal before 1 April 2008. We can help you with the calculations.

Sharing profits in family businesses



Who gets what slice of the profits

Family businesses have been waiting anxiously for the full Government response to the victory of the taxpayer Mr Jones in the Arctic Systems case, where the profits of the business were shared between Mr and Mrs Jones.

In the Pre Budget Report the Treasury refers to income sharing within a family as *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 have yet to be decided, but the factors that may be taken into account include:

- the work done in the business by each person;
- the amount of capital contributed; and
- the business risks each person takes.

It is going to be 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.