Summer 2012

Talking Tax

Guiding you to lifelong prosperity

Introduction

Welcome to our summer edition of Talking Tax, the newsletter from Hazlewoods tax team.

The Olympic torch is currently being relayed through Britain, in time to reach the London 2012 opening ceremony on 27 July. It seems like a long wait from the lighting of the torch in Olympia at the beginning of May to the opening ceremony.

The same could be said of the 2012 Finance Bill progress through Parliament. Draft clauses were released last December and it will not become law until Royal Assent, which is expected in July. Even given the many months between the full Bill being issued and the Finance Act becoming law, the Treasury Committee has said that the timings are highly unsatisfactory with not enough time for discussion. This implies that the Budget could be earlier in future years, but for now it may mean that legislation is not properly discussed and so does not achieve the desired result. With this in mind we include an article on the 'pasty tax' announced in the Budget and then reversed a couple of months later.

Returning to the Olympics we include an article on the tax consequences of the Games being in London. We also provide some tax saving ideas in relation to the forthcoming reduction in the 50% tax rate, the increased personal allowance and the withdrawal of child benefit for higher earners.

Other articles look at the comparisons between the various tax incentivised investment schemes and the latest developments in the policy to cap income tax reliefs.

If you have any questions or comments about any of the articles please speak to your usual Hazlewoods contact or the person who wrote the article.

Contents:

Tax and the Olympics

Gloucestershire may not be lucky enough to be holding any of the London 2012 Olympic sporting events, but with the torch passing through a few weeks ago it is difficult not to get at least a little bit excited. We will also soon be welcoming the Malawian Olympic team to the county because they have chosen the University of Gloucestershire as their training camp.

If you are local to our offices you may not feel directly involved with the Olympics, but for those of you closer to the main events it's sure to have an impact (even if it's just delays getting to work).

Here are some of the tax consequences of the London Games.

Property letting

Many people with properties close to Olympic venues have taken the opportunity to make the most of premium rentals during the Games and put their properties up for rent. With houses near the Olympic Park letting for an average of more than £3,000 per week during the Games you can certainly see the attraction.

If you are letting your property out you need to make sure you do not fall foul of HMRC or you could face a hefty fine. Making

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DRIVING LIFELONG PROSPERITY

extra undeclared income during the Games will be just the sort of thing they are watching out for.

If you do let your property on a short term basis, here are three key tips:

1. Make sure you tell HMRC by putting the income on your tax return.
2. Take advantage of all the expenses you can claim against the rental income you earn. Such expenses must be 'wholly and exclusively' for the rental of the property and they must not be 'capital'.
3. Speak to us to check you are not paying more tax than you have to and to make sure you are not jeopardising your right to Capital Gains Tax relief when you sell you property.

If you stay put in your house but rent out a room, you could benefit from 'rent-a-room' relief. This allows you to earn a total of £4,250 before paying tax. To qualify it is important that you do not provide any free services such as meals or a laundry service.

Avoid cutting corners

For businesses expecting to become busier and trading longer hours during the Games, you need to remember not to cut corners or HMRC's 'dynamic response team' could catch you. This applies to everything from making sure you are paying staff correctly, not taking advantage of staff and accounting for VAT on merchandise.

Giving employees tickets to the Games

If you have tickets to the Games and you give them to your staff the normal expenses and benefits rules apply. The same rules apply for any supplementary costs you pay such as travel, accommodation and meals.

So, if you are giving the tickets as a reward to an employee for their hard work it is a benefit in kind to the employee. This is usually entered on the employee's P11D or, if you're feeling really generous and want to pay the tax for them, you could include it in a PAYE Settlement Agreement (PSA).

The cost of the tickets and any supplementary costs will be an allowable deduction for you as the employer.

Exhibiting at the Games

If your business has commissioned an exhibition stand at the Olympic Park, HMRC has confirmed that this is likely to be a temporary structure. The implications of this are that you do not need to operate the Construction Industry Scheme (CIS) on the payments made to the erecting business.

Client entertaining

If you are using the Games to entertain clients the costs are disallowable for tax purposes. If staff attend the event to entertain the clients and try and win future business their costs will also be disallowable.

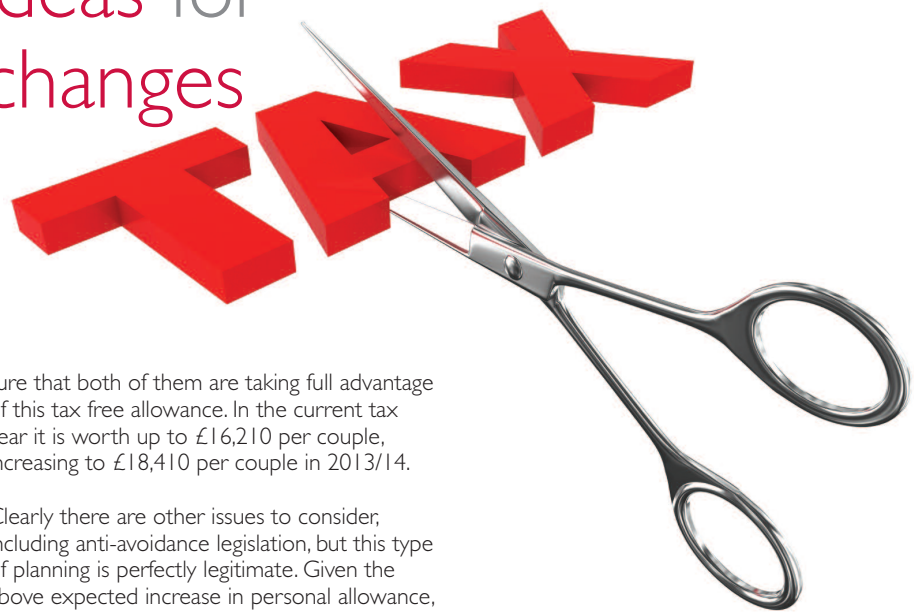
Olympic mementos

In principle, if you as an employer give an employee a gift, such as a mini Wenlock or Mandeville, it is a taxable benefit, with no de minimis level below which tax is not charged.

Although there is no general exemption you may be able to treat the gift as a trivial benefit, which could therefore be excluded from the P11D. There are no set rules for determining the type of benefit that is trivial. There is also no set monetary limit below which benefits are deemed to be trivial in amount. Therefore, common sense and judgement must be applied to both the type and the amount of benefits that may be trivial.

If you want to find out more about tax and the Olympics please speak to Tom Woodcock on 01242 237 661 or email him at tom.woodcock@hazlewoods.co.uk.

Money saving ideas for upcoming tax changes



The Budget contained three forthcoming changes for income taxpayers, each affecting individuals on different income levels.

1. The increased personal allowance
2. The withdrawal of child benefit
3. The decrease in the additional rate of income tax

So, however much you earn, read on to see if you are affected and what you can do to save money.

The increased personal allowance

From the moment the Coalition Government was formed they have had the target to raise the personal allowance to £10,000 by the end of the parliament in 2015. Not everything appears to be going to plan for the coalition, but with an increase in the personal allowance from 6 April 2013 to £9,205 this is moving in the right direction and is increasing at a faster rate than anticipated.

Money saving idea

Married couples and civil partners should make sure that both of them are taking full advantage of this tax free allowance. In the current tax year it is worth up to £16,210 per couple, increasing to £18,410 per couple in 2013/14.

Clearly there are other issues to consider, including anti-avoidance legislation, but this type of planning is perfectly legitimate. Given the above expected increase in personal allowance, within a few years a couple can save a significant amount of tax.

The withdrawal of child benefit

The original announcement had said that child benefit would be removed in January 2013 from households in which at least one person earned more than the higher rate tax threshold in the tax year (£42,475 for 2012/13).

This caused an outcry because people quickly spotted the anomaly that a couple could each earn £40,000 giving them a joint income of £80,000 and retain the benefit. However, a household with a single earner taking home anything more than £42,475 would lose their child benefit.

Under the new plans announced in this year's Budget the child benefit will be phased out when one person in a household has an annual income of more than £50,000. The withdrawal will be a 1% reduction in child benefit for every £100 earned over £50,000.

Although the new plans may be an improvement many would argue that they are still not fair because a couple could each earn £50,000 giving them a joint income of £100,000 and retain the benefit, whereas a household with a single earner taking home £60,000 would lose their entire child benefit.

There are then the problems of how it will work in practice

- The child benefit will continue to be paid in full and any deduction in the benefit will be taken as an income tax charge from the taxpayer earning more than £50,000. This will either be achieved through PAYE on a monthly or weekly basis, or Self Assessment, with the first liabilities to be paid by 31 January 2014.
- HMRC denies that the new rules will compromise confidentiality. Most couples probably know roughly what the other earns and whether one partner gets child benefit, but those couples who choose not to speak about such matters have a right for their tax affairs to remain confidential. HMRC say that they will be able to answer closed questions without affecting confidentiality. It will be interesting to see the wording of the letters that will be sent out in October to those on more than £50,000 asking if they or anyone else in their household receives child benefit!
- the income figure to be used is the 'adjusted net income'. This is calculated as:

1. The total of the individual's income subject to income tax less specified deductions, such as trading losses and payments made gross to pension schemes, less
2. The grossed up amount of the individual's gift contributions and the grossed up amount of the individual's pension contributions which have received tax relief at source, plus
3. Any relief for payments made to trade unions or police organisations deducted in arriving at the individual's income at point one.

Money saving ideas

- make additional pension contributions to reduce your income to £50,000.
- try to equalise incomes between couples to keep them both below £50,000.

The decrease in the additional rate of income tax

We know that from 6 April 2013 the additional rate of income tax, for individuals with income of over £150,000, is due to fall from 50% to 45%.

Money saving ideas

If you are likely to pay income tax at the 50% rate for the current tax year (the year ended 5 April 2013) you should consider ways to defer income to the following year so that you are taxed at the lower 45% rate. Possible ideas are to:

- defer the payment of dividends until after 5 April 2013;
- take money out of your company using a director's loan account during 2012/13, rather than receiving a salary. You then repay the loan account after 6 April 2013 once you do get paid (there are some other tax considerations here so please talk to us if you want to use this idea); and
- acelerate capital expenditure, so that your profits are lower in the year ended 5 April 2013.

You should also consider maximising your pension contributions during the year ended 5 April 2013 so that you obtain relief at 50% and before the relief falls to 45%.

If you want to talk about income tax planning ideas please speak to Nicholas Smail on 01452 634800 or email him at nicholas.smail@hazlewoods.co.uk.

With a trio of tax incentivised investment schemes, which is right for you?

The Venture Capital Trust (VCT) scheme and the Enterprise Investment Scheme (EIS) have been around since the mid nineties. The new kid on the block is the Seed Enterprise Investment Scheme (SEIS) which only came into effect on 6 April 2012. Each of the schemes aims to help Britain's smaller private companies raise finance by offering tax incentives to investors.

In recent years there have been several changes to the pre-existing schemes and of course the SEIS has been introduced. Given that the changes are usually announced well in advance of implementation and because many of the changes require EU state aid approval it can be difficult to keep up.

The table opposite highlights the main qualifying conditions and tax reliefs for each of the schemes.

Should you consider investing in a tax incentivised investment scheme?

If you answer yes to any of the following questions (and you have available funds) you might find a tax incentivised investment scheme a useful investment vehicle:

Do you want to:

- take advantage of income tax relief?
- defer Capital Gains Tax?
- shelter investments from Inheritance Tax?
- take advantage of what could be significant tax free growth?
- expand your current investment portfolio?

What next?

If you have a company

If you want to find out more about how your company can benefit from a tax incentivised investment scheme and how to implement a scheme cost effectively please speak to Ruth Dooley on 01452 634800 or email her at ruth.dooley@hazlewoods.co.uk.

If you want to invest

If you want to find out more about the possibility of investing in a tax incentivised investment scheme and the schemes available please speak to Beverley Lavin, Hazlewoods Financial Planning partner, on 01242 680000 or email her at beverley.lavin@hazlewoods.co.uk.

Hazlewoods welcome a new Financial Planning partner, Beverley Lavin. Beverley has been working with both corporate and personal clients for over 25 years providing holistic financial planning advice.

	VCT	EIS	SEIS
Annual investor limit	£200,000	£1m	£100,000
Company investment limit	£2m on VCT or EIS (increasing to £5m)*	£2m on EIS or VCT (increasing to £5m)*	£150,000 (cumulative over 3 years)
Gross assets limit	£7m before the share issue and £8m after (increasing to £15m/£16m)*	£7m before the share issue and £8m after (increasing to £15m/£16m)*	£200,000 before the share issue
Employee limit	Fewer than 50 (increasing to 250)*	Fewer than 50 (increasing to 250)*	Fewer than 25
Use of money	Must be used within two years	Must be used within two years	Must be used within three years. 75% must be used before money can be raised under EIS/VCT
Subsidiaries	Company may have subsidiaries, subject to conditions	Company may have subsidiaries, subject to conditions	Company may have subsidiaries, subject to conditions
Director subscribers?	N/A	Directors are generally excluded unless within Business Angel exemption	Directors will not be excluded unless caught by the 30% rule**
Income tax relief for subscribers	30%	30%	50%
Carry back investment to previous year	No	Yes	Up to £100,000
Clawback if held for less than	5 years	3 years	3 years
Tax free dividends?	Yes	No	No
Reinvestment relief available	No	Capital gain can be deferred where a gain is invested in EIS shares	2012/13 only
Tax free capital gains?	Yes	Yes (after 3 years)	Yes (after 3 years)
Tax relief for losses?	No	Yes (after 3 years)	Yes (after 3 years)
IHT business property relief	No	Yes	Yes
Time limited to make investment	No	No	Ends 5 April 2017

* The changes have received EU state aid approval and apply in respect of shares issued on or after 6 April 2012.

** The 30% rule is that the individual must not own or be entitled to own more than 30% of the companies share capital, or voting rights, or are entitled to more than 30% of the assets in the event of a winding up.

Does the cap fit?

The announcement in the Budget that unlimited income tax reliefs would be capped was undoubtedly aimed at blocking certain tax avoidance schemes. Since the Budget there has been a backlash against the plans from both charities and philanthropists and we now know the cap will not apply to charitable giving.

Although this latest Government u-turn is good news, based on the plans announced in the Budget, it looks like the capping will still have negative implications for many people. The proposals certainly reach far wider than simply tackling tax avoidance schemes.

This article looks at the planned changes and how they could affect you.

The basics

At the moment there are certain reliefs that individuals can offset as much as they choose against income, allowing some individuals to pay no income tax at all.

From 6 April 2013 there will be a limit to the amount of these income tax reliefs that individuals can claim. The cap is to be set at the greater of 25% of the individual's income or £50,000.

The reliefs that will be capped include:

- loss relief that can be claimed against total income;
- qualifying loan interest relief; and
- some smaller reliefs which are currently uncapped.

The following reliefs will not be affected:

- double taxation credits;
- reliefs that are already capped such as pension tax relief and Enterprise Investment Scheme tax relief;
- computational reliefs used to determine how particular types of income are calculated; and
- reliefs for charitable giving (after the backlash from both charities and philanthropists).

For the purpose of these capping rules there will be a new definition of income to calculate the reliefs an individual can claim. This is to ensure that individuals are treated equally, but it is not yet known how this will be dealt with on the Self Assessment forms.

Example 1

In 2012/13 an individual sole trader has total income of £100,000 and has current year trading losses of £50,000 and qualifying loan interest of £15,000.

The individual can claim total allowable relief of £65,000 thus reducing their taxable income to £35,000.

Example 2

The circumstances are exactly as they are in example 1, but it is 2013/14.

The individual's total allowable relief will be capped at £50,000, so the individual's taxable income is £50,000 and they fall in to the higher rate tax band.

As can be seen from the examples it will not just be individuals participating in complicated tax planning schemes that will be affected by the new rules. So, if you have significant losses or pay out large sums of qualifying loan interest, you could be affected too.

If you are worried please speak to us.

What happens next?

Sometime this summer the Government will open a consultation on the policy detail for the capping of income tax reliefs. Draft legislation is planned to be published later in the year. Whilst it's good that the Government are consulting, it is unclear, now the impact on charitable donations has been dealt with, exactly what issues will be open to consultation. We fear the consultation questions will be very limited, however to us, the issue that should be open for discussion is the principle of the new rules themselves. Is it too much to hope that there might be yet another u-turn?

Do you want the Government to hear you?

We will be replying to the consultation over the summer. If you are interested in being a part of our response or want to see what we think please contact Nick Haines on 01242 237661 or email him at nick.haines@hazlewoods.co.uk and he will ensure you are kept up to date.

Could you be due an Inheritance Tax repayment?

In a recent study, it was estimated that 20,000 Estates overpaid an average of £4,260 Inheritance Tax (IHT) in the last four years.

In many cases this is because Executors failed to claim "loss on sale relief". This relief can be due when shares are sold within a year of death or a property is sold within four years of death and means that the Probate value is replaced with the gross sale proceeds. The relief is especially relevant at the moment when some properties and shares are falling in value.

If you are the Executor of an estate with shares and/or a property there may be planning opportunities to help you save IHT for the Estate. If you want to find out more please speak to Helen Richmond on 01242 237661 or email her at helen.richmond@hazlewoods.co.uk.

Tax Prize Draw

This year's prize for letting us have your tax return information in plenty of time is the New iPad and smart cover. To be in with a chance of winning, let us have your tax return information and post card by Wednesday 31 October 2012.

Who ate all the humble pies?

We have recently seen a remarkable climb down by the Government, with the reversal of VAT changes announced in March's Budget.

Budgets invariably contain more measures than are ever spelt out in the speech itself and the world of VAT rarely escapes the attention of the Chancellor. Yet changes to the VAT regime, momentous though they may be, rarely grab more than a couple of column inches at the bottom of the news. This time, however, the proposed imposition of VAT on hot take away food (the so-called "pasty tax") raised such a furore that a re-think and subsequent back tracking has now occurred.

So what started all this? Funnily enough it was nothing to do with the UK: It was caused by an ECJ case involving a German hot food delivery company. After pondering at great length the reason why food is heated up (believe it or not, there is a difference between 'a basic part of the cooking process' and the 'better enjoyment of the food') the ECJ concluded that hot take-away food was VATable.

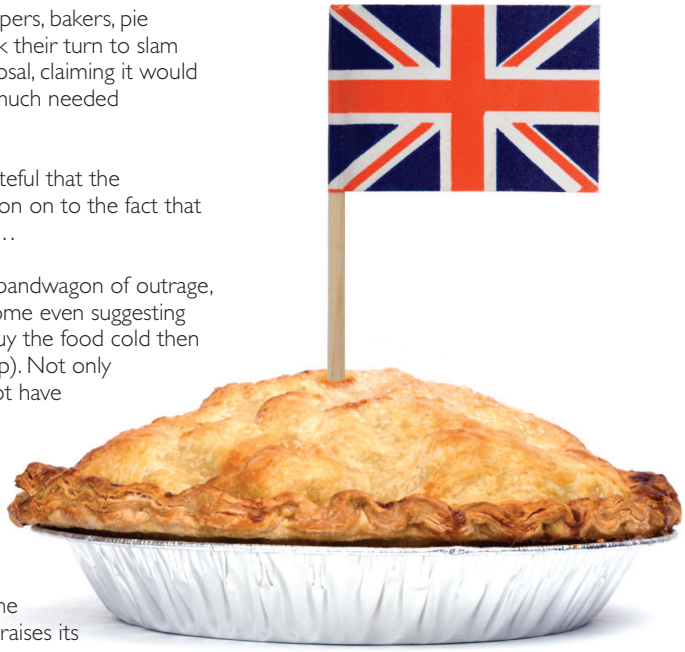
Not wanting to be 'out of step' with Europe (and always happy to raise a bit more revenue) Mr Osborne sought to apply the findings of the case to all hot take away food sold in the UK.

The proposed changes brought a torrent of consternation from Fleet Street and others.

One by one, the newspapers, bakers, pie makers and retailers took their turn to slam George Osborne's proposal, claiming it would deprive our children of much needed sustenance.

Maybe we should be grateful that the newspapers did not cotton on to the fact that Europe was behind it all…

Ever keen to jump on a bandwagon of outrage, MPs joined the furore; some even suggesting ways to avoid the tax (buy the food cold then pay for it to be heated up). Not only would such a 'scheme' not have worked, but these suggestions raise the eyebrows somewhat when one considers that it is those same MPs that are so keen to have a dig at 'clever accountants' whenever the subject of tax avoidance raises its forbidden head.



In the end the sheer weight of opinion forced a re-think. The fires of public outrage were well and truly stoked in a manner Sir Humphrey Appleby would have been proud of and, contrary to what may have been suggested at the Leveson Enquiry, government policy was swayed by Fleet Street and others. The great British pasty may not be fat free, but it will continue to be VAT free.

If you want to talk about how we can help you with your VAT compliance or planning issues please call Adam Lloyd on 01242 237661 or email him at adam.lloyd@hazlewoods.co.uk.

Hazlewoods Tax Team

Services

We provide specialist advice in all areas of tax including the following:

- Business structuring
- Employer services
- Inheritance Tax and estate planning
- Partnership Tax services
- Tax Investigations
- VAT
- Corporation Tax
- International Tax services
- Owner Managed Businesses
- Personal Tax
- Trust Tax
- Stamp Duty and SDLT mitigation
- Transactions, planning and support
- Capital Gains Tax planning
- Forensic Tax and Litigation support

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