

# Tax Newsletter



## New Year resolutions

Yes, it's that time of year again when a lot of us strive for at least a fortnight to transform all our 'bad' habits into 'good' ones.

It is also a good time to put some thought into tax planning, with the approach of the tax year-end. The following tips may give you some ideas of how planning could help reduce your tax bill both this year and in the future.

**Income Tax** – Ensure you are fully utilizing your lower and basic-rate income tax bands. For example, no further tax is payable on dividend income received by a basic-rate taxpayer. If you are a shareholder in your family company you might want to check if you will have any basic rate band remaining and utilize it by declaring and paying a dividend out of your company before 5 April 2007.

**Capital Allowances** – If you are considering buying new equipment for your business some time in the next few months, it is generally worth making such purchases before the end of your accounting period so that you can get the tax relief a year earlier than you would if you delay the purchase until after your year end date.

Purchases of new plant and machinery made by small enterprises will qualify for 50% first year capital allowances until the end of the current tax year (5th April for unincorporated businesses and 31st March for companies).

Purchases of certain qualifying energy saving plant and machinery, environmentally beneficial plant and machinery and of cars with very low CO<sub>2</sub> emissions by all sizes of business qualify for 100% first year allowances.

**Pension Contributions** – With the introduction of 'A' day last April, the rules in connection with pension contributions were relaxed somewhat and an individual can invest up to 100% of their earnings, or £3,600 gross if they have no income, into their pension fund, subject to the new annual allowance of £215,000 for tax relief purposes.

The benefit of investing in a pension is that the contributions will give you additional tax relief, if you are a 40% taxpayer, and the government will add 28p to every £1 you invest.

A further incentive to invest in a pension fund is that your company will also get tax relief for any contributions made.

**Individual Savings Accounts (ISAs)** – In the current tax year you are entitled to save £7,000 in one of these accounts (or up to £3,000 if it's a cash only ISA). The income and gains arising in these accounts are tax-free.

**Capital Gains Tax** – If you are intending to dispose of a capital asset (for example, a house that is not your main home or shares) in the next few months it is worth checking with us in advance of the sale if there is anything that can be done to mitigate your exposure to capital gains tax. For example, you may wish to consider transferring the asset into joint names with your spouse to utilize two sets of annual exemption.

The timing of a disposal is also important. For example, you may wish to ensure gains are evenly spread over tax years, or delay the due date for payment of the tax. Timing can also affect taper relief due on the disposal.

**Inheritance Tax** – No matter what your age or circumstances it is important to ensure that you have an up-to-date and tax efficient will. It is also worthwhile to keep a record of all your assets and ensure that someone knows where to find it, for example your solicitor. This can save distress for your loved ones at what will be a traumatic time. If your estate is in excess of £285,000 we can advise on ways to avoid an inheritance tax charge, such as by the use of nil-rate band trusts to ensure married couples utilize fully their nil-rate bands.

We hope these suggestions have provided some food for thought. Please contact us for tailored advice if you wish to use tax planning as a tool to mitigate your tax bills.

## PAYE surcharges – large employers

Large Employers, i.e., those with 250 or more employees, should have been paying their monthly PAYE/NIC liability by electronic transfer from the beginning of the 2004/05 tax year.

The due date for electronic payments is the 22nd of the month. Late payments trigger default notices. A default notice heralds the start of a surcharge period which will last until the end of the next tax year in which HM Revenue & Customs do not issue any default notices or in which all default notices are successfully appealed.

Surcharges are calculated by applying the cumulative surcharge percentages (based on the number of defaults in the period) arising in a tax year to the amount of PAYE/NIC and CIS deductions due for the year, less amounts paid by the employer such as Statutory Maternity Pay and Student Loans.

### Example:

- All electronic payments are late in a tax year
- 11 default notices have already been issued for earlier tax years
- Surcharge percentage is 9.96% of the net PAYE/NIC
- The net PAYE/NIC for the year is £1m
- Surcharge would therefore be £99,600.

As you can see the surcharges can mount up and we recommend that all Large Employers review their payment system to avoid any possibility of a surcharge or further surcharges arising.

Please contact us if you wish to discuss further.

## Residency issues – an update

In our November Tax Newsletter we brought to your attention the case of *Gaines-Cooper v Revenue & Customs Commissioners*, the judgement in which generated much concern around the area of residency with regards to the extent that an individual can rely on HM Revenue & Customs' (HMRC) published guidance in booklet IR20.

HMRC have since confirmed in a news brief that there has been no change to its practice in relation to residence and the '91-day test'. They state that the facts of the *Gaines-Cooper* case were such that the test was not relevant as the Commissioners judged from the totality of the evidence that Mr Gaines-Cooper did not in fact 'leave' the UK for tax purposes, instead he was a UK resident who had occasionally been abroad, rather than a non-UK resident who had made temporary visits to the UK.

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The following is an extract from the brief:

"HMRC will continue to:

- follow its published guidance on residence issues, and apply this guidance fairly and consistently
- treat an individual who has not left the UK as remaining resident here
- consider all the relevant evidence, including the pattern of presence in the UK and elsewhere, in deciding whether or not an individual has left the UK
- apply the '91-day test' (where HMRC is satisfied that an individual has actually left the UK) as outlined in booklet IR20, normally disregarding days of arrival and departure in calculating days under this 'test'.

The guidance provided by booklet IR20 is general in nature. If, on the facts of the matter, a dispute arises over the application of this general guidance and the parties cannot resolve their dispute by agreement, the Commissioners will determine any appeals. The Commissioners are bound to decide the legal issues by reference to statute and case law principles rather than HMRC guidance. Where a dispute relates to particular facts the Commissioners will consider the evidence and make findings of fact to which they will apply the law."

If you have any queries regarding residency issues we can provide more detailed advice.

### Important dates

<b>31 January 2007</b>	Deadline for submission of 2006 Self Assessment Tax Returns
<b>6 April 2007</b>	New CIS rules come into operation

### Contact Details:

For further information on any of our services please contact:

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