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Plan to save thousands in tax

While the constant tax changes do cause problems for us all, not least the current software problems HM Revenue & Customs are having accepting some company tax returns, the changes can provide tax saving opportunities or sometimes tax traps which can be time sensitive.

For example, a recent proposal issued by the government, if brought in, could seriously reduce the possible Capital Allowance claims that property owners can make. Which means ignoring tax traps, or being unaware of tax breaks, could be extremely costly going forward. Early planning could help save you thousands in unnecessary tax.

As everyone's circumstances are different, and the rules are constantly changing, we would be delighted to talk to you in detail about how the rules apply to you and how you could save tax. We want to help you pay your fair share of tax… and not a single penny more!

Tip

To avoid potential penalties and interest please contact a member of the team to arrange for early completion and submission of your 2010/11 Tax Return. If you provide the information in sufficient time to have the Tax Return submitted by December 2011 any underpayment under £2,000 will be collected via the following year's PAYE tax code - giving a cash flow benefit.

Little Extra Tip

HMRC are keen to reduce their workload in processing self assessment returns where they are no longer required and we review this after any change of circumstances. Call us immediately your circumstances change so we can advise you on the necessity of completing a Tax Return.

Personal Taxation - HMRC push on with higher interest and penalty charges

Penalties and interest have now become a greater threat to clients with personal tax returns. Although we have a first class record of filing personal tax returns on time, some clients do still leave bringing in their records until the last minute. Early submission of your 2010/11 Self Assessment Return will ensure you avoid the new penalties. A tax return filed six months late could attract a penalty of at least £1,300!

A HMRC spokesman said: The old £100 penalty was not much of a deterrent [to Tax payers filing their tax returns late] and these new penalties, which increase over time, will get people to submit returns as soon as possible. Basically the greater the delay, the greater the penalty."

The penalties for filing your tax return late are:

- 1 Day: Initial penalty of £100, even if you have no tax to pay or you have already paid all the tax you owe!
- 3 Months: Automatic daily penalty of £10 per day, up to a maximum of £900.
- 6 Months: you will be charged further penalties, which are the greater of 5 per cent of tax due or £300.
- 12 Months: Yet more penalties to a maximum of £300.

In serious cases you face a higher penalty of up to 100 per cent of the tax due!

As if it wasn't enough to pay if your tax return is submitted late, there are also penalties for paying your tax late:

- 30 days late: Initial penalty of 5 per cent of the tax unpaid.
- 6 Months late: Further penalty of 5 per cent of the tax that is still unpaid.
- 12 Months late: Further penalty of 5 per cent of the tax that is still unpaid.

These penalties are on top of the interest that HMRC will charge on all outstanding amounts, including unpaid penalties, until your payment is received.

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Rent a room relief

With only about 400 days until the start of the 2012 Olympic Games, HM Revenue & Customs (HMRC) is reminding anyone thinking of renting out a spare room to visitors to review the Rent a Room scheme first.

Under the scheme, you can receive up to £4,250 a year tax-free if you rent out a furnished room in your residential property - a maximum tax saving of £2,125.

You can take advantage of the scheme if you let a room or an entire floor of your home - to a lodger who pays to live in your home, sometimes with meals provided, and who occasionally shares the family rooms.

In addition, you can use the Rent a Room scheme if your home is rented; you don't have to be the owner.

Where the expenses will possibly exceed the income we would also compare actual costs against a potential claim to determine whether or not it is more worthwhile claiming the relief rather than the expenses.

Tip

If you are considering renting out a room or number of rooms in your property why not speak to a member of our team to advise you on the correct method of recording this income and the expenses which can be claimed. We will also be able to help you find the legal assistance you will require to set up the assured short hold tenancy agreement and ensure all of the income you receive under this scheme is tax free!

Tax write Off For Pensioners and the Disabled

Following the HMRC fiasco in 2008/09 where many incorrect PAYE tax codes went unchallenged by HMRC, the Treasury announced its intention to write off the PAYE underpayments in respect of previous years for many pensioners. This is an effective write off of tax which has been underpaid and may in many cases amount to thousands of pounds! HMRC have now confirmed their decision to extend this concession to many claimants of other benefits, for example disability benefits.

Tip

If you would like us to review any PAYE code number for a previous year's underpayment please contact a member of the team who will undertake an assessment to check whether the concession applies in your personal circumstances.

I have a PAYE code number - My tax should be correct shouldn't it?

PAYE code numbers are a means of collecting payments on account of your Annual Tax liability, on a monthly basis from the employed or those on pensions and benefits. HMRC may also adjust the code to collect tax on savings income. It often happens that HMRC issue an incorrect code number resulting in under or overpayments of tax. If your circumstances change during a tax year why not call the office to see if there are any tax consequences.

HMRC often estimate savings income as far higher than it is in reality and you do not need to have this collected through your code. Instead we can ask HMRC to take the savings adjustment out of your code and pay the tax under the self-assessment system. This will increase your take home pay each month.

The personal allowance is reduced where an individual's income is over £100,000. Where HMRC expect this to be the case based on previous year's income, they will take away the personal allowance from the tax code. If your income is likely to be less than £100,000 we can ask that they read just the code; rather than waiting until you do your Tax Return to claim a repayment this will provide another cash flow advantage.

Inheritance Tax - Gifts out of Income

As we get older many of us find that our capital held on deposit grows simply by the excess income over household and living expenses. This is income on which we have already paid tax and there is a real possibility of having to pay a further 40% in Inheritance Tax (IHT) from our estate! If you are a higher rate tax payer in your lifetime and have a chargeable estate on your death this amounts to an accumulated rate of 70% tax ! Or £70 in every £100 is paid over to the Treasury!

Gifts made to our loved ones out of this capital will impact on our IHT bill if we don't survive for 7 years after the gift. However there is a little used exemption for IHT purposes (in addition to the £3,000 annual allowance for gifts), for gifts made out of income on a regular basis.

It is important to establish the regularity of the payments in order to qualify for this relief, so if gifts are made in cash then these should be regular in amount and frequency taking one year with another with a letter of intention to continue to make these payments for a specified period of time. A better way of establishing regular payments may be to take out an investment policy for someone such as your (adult) child with premiums being due on a regular basis or paying a liability for your (adult) child, for example an insurance policy.

T Tip

The team will be pleased to discuss the requirement for record keeping and how this little used exemption could allow you to pass some financial benefit to your loved ones during your lifetime! We can also supply you with an estimate of your IHT liability, undertake an IHT health check or undertake bespoke IHT planning to ensure the minimum amount of IHT is paid.

L Little Extra Tip

Surprisingly, many people still die intestate (i.e. without a will). With the ease that wills can now be drafted and the low cost of such services, it makes good sense and can save a lot of needless heartache and stress for those left behind to make a will, not to mention saving a lot of tax…

L Little Extra Tip

You are allowed to gift up to £3,000 per annum to other people free of inheritance tax. This allowance is unusual in that it can be carried forward one year, so if you didn't use it last year then you can gift £6,000 tax free in the following year. Don't forget, gifts to spouses and charities are tax free!

Tax Credits and Trading Losses - HMRC give a double helping of tax relief!

Many couples claim the basic family element of tax credits and receive a little over £10 per week from the Tax Credits Office. Many clients are happy to deal with the claim themselves, however there is potential to claim Tax Credits following many changes in circumstances which happen over the course of family life.

In the case of trading losses for one of the partner's in a couple with children there is a little known relief for those losses to be used against the spouse or civil partner's income - thus reducing the income for Tax Credits purposes.

It is often overlooked when an individual prepares their own Tax Credit Annual Declaration form and often a variety of figures are entered for total income which can sometimes cause an incorrect payment to be made.

Tax Credits is a complex area of the tax legislation which if planned for correctly could generate a claim for £0,000's.

Example: John is a gas fitter and his wife Sylvia is a district nurse earning £31,000 and they have two children of school age. They have been in the Tax Credits system for many years and receive the basic family element amount of £545 per annum. John has been unlucky and has not had much work in the year ended 5 April 2011. As a result he has made trading losses of £25,000.

His accountant has suggested for tax purposes a claim to use the loss to generate a refund of the tax John paid last year which makes John's situation look a little less bleak. But then his accountant suggests something which he didn't expect - a Tax Credits Claim. Because Tax Credits law is different to tax law the loss can also be deducted from Sylvia's income taking the whole family income for tax purposes down to £6,000. In the year to 5 April 2011 the tax credits claim is finalised at £6,000 (being Sylvia's salary deducting John's loss). At that level of income the family would receive a cheque for £9,770 !

In reality the tax loss has been used twice - once against John's income generating a refund and a further time against Sylvia' income generating a tax credit claim!

Tip

If you are uncertain of the level of income or are not in the Tax Credits system you have until 5 July 2011 to submit a claim to ensure you receive the full year's award.

Annual Investment Allowance - it's not what you spend but when!

Clients intending to incur substantial expenditure on the provision of plant or machinery over the next few months need to consider the timing of the expenditure so as to mitigate the implications of the major reductions of the Annual Investment Allowance (AIA) from £100,000 to £25,000 from April 2012! A potential loss of allowances of £37,500 for an individual or partnership taxed at the highest rates.

The allowance available is calculated on a time basis depending on the number of days in the accounting period post and prior to the decrease and so the timing of expenditure is vital to maximize the allowance available. The closer the expenditure is incurred to the accounting day falling after April 2012 the less the allowance will be so you may even need to consider a change of accounting date should the expenditure be significant.

Tip

If you are considering purchasing a substantial item of plant and machinery then phone the team as soon as possible so that they can calculate the optimum date for the purchase in order to maximise the allowance available or alternatively to discuss the necessity to change the accounting date.

Shares in the Good Times and the Bad

We often satisfy the gambling instinct in our nature by investing in a small quantity of shares in a company recommended to us only to later realise that this investment was not as 'sure a thing' as we had hoped.

The good news is that, should your investment be recognised by HMRC as one of the companies whose shares have no value, then an allowance can be claimed for this loss of capital invested.

HMRC recognise that Capital Investment is necessary to make companies grow and therefore they make a concession where these investments are not a success by allowing the loss of capital to be given as a relief against income tax. Which means tax relief for the loss of capital invested of up to 50%!

HMRC have recently updated its list of recognised companies where the shares are considered to have little or no value and this may be an appropriate time to have your portfolio reviewed and any claims against income lodged with HMRC.

These claims for losses of capital do not affect any Capital Gains Tax disposals made in the year.

Tip

We can review your share portfolio for potential negligible value claims and make the claim on your Tax Return provided the shares became of negligible value in the last year.

We Can Help

We can help you by ensuring that you're aware of the changes that will affect you, your family and your business. To find out more about the ways that we can help you, do not hesitate to contact us.

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