

BARR ETTE

CHARTERED ACCOUNTANTS & CHARTERED TAX ADVISORS

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Changes in tax codes

To soften the effect of the scrapping of the 10p income tax rate in April 2008, the Chancellor announced in May 2008 the raising of "personal allowance", as has been widely reported. The increase in personal allowance from £5,435 to £6,035 means that the majority of basic rate taxpayers will be £120 better off for the current tax year. The increase is designed to compensate those taxpayers who were worse off following the removal of the 10% starting rate of tax from non-savings income.

This means that employers need to change the tax codes of employees from 7 September 2008. An employee with a 543L tax code, for instance, will need to be changed to 603L. Employers should have also received a new tax table or make changes to their payroll software to accommodate the lowering of the basic tax rate band from £36,000 to £34,800 for income tax purposes.

For higher rate taxpayers, though they may also benefit from the increase in their personal allowance, they will be paying more tax at the higher rate of 40%. Their total tax bills will however remain unchanged.

National Minimum Wage rates

National Minimum Wage (NMW) rates are set to rise from 1 October 2008. The increased rates will be as follows:

- Adult rate (workers aged 22 and over) will increase to £5.73 (from

£5.52)

- Development rate for 18 - 21 year olds will increase to £4.77 (from £4.60)
- Young people's rate for 16 - 17 year olds will increase to £3.53 (from £3.40)

If you need any clarification on the new rules and other payroll related issues, please get in touch.

Company car fuel

As a result of the recent hike in fuel costs, new advisory fuel rates were announced by the HMRC in June 2008, effective at the employer's choice from 1 June or 1 July 2008. A table of the new rates can be seen from the following link on the HMRC website: http://www.hmrc.gov.uk/cars/advisory_fuel_current.htm.

The tax cost of employer-provided fuel-cost also increased from April this year. In most circumstances, this means that it makes no sense for employer to pay for fuel for private journeys in a company car, as employees would pay more tax than what it would cost them to pay for the fuel.

If you wish to discuss the above further or the most tax efficient ways to remunerate your employees, please feel free to contact us.

Stamp Duty Land Tax (SDLT)

To demonstrate its support for homebuyers and the housing market, the Chancellor announced that from 3 September he would introduce a temporary exemption ("holiday") from SDLT for acquisitions of residential properties worth not more than £175,000 for one year.

The exemption will be available where the effective date of land transaction is on or after 3 September 2008 and on or before 2 September 2009. The effective date of land

transaction is normally the date of completion and there are no circumstances that the exemption may apply before 3 September 2008 or after 2 September 2009.

The effect of this increase is that where residential property is bought or leased (for in excess of 21 years) costing not more than £175,000, no SDLT will be payable. SDLT continues to be payable at 1% on property from £175,000 to £250,000 before the percentage rises.

The transaction must still be reported using the relevant return form SDLT1 even though no SDLT is payable.

If you need further information on the types of property that qualify for the exemption, please contact us.

Deadline for Self Assessment (SA)

If you need to file a SA return, don't forget about the filing deadline of 31 October for paper returns.

In previous years, both the paper and online SA returns had to be filed by the 31 January. But from this year, paper returns need to be filed by 31 October. If you are planning to file a paper return, you need to get organized now. For example, start thinking about the information that you need to complete your tax return, such as P60 and records of your savings.

Alternatively, you may register to file your tax return online. This will give you more time to gather the information you need to file your SA return.

If you need help with your paper SA or have questions about filing your return online, please contact us.

Working from home

Are you the owner of an unincorporated business or the

director or an employee of a limited company who work from home? If so, there may be some tax planning opportunities that you can take advantage of:

Unincorporated business

If you are self-employed and work from home, then you can claim some of your home running costs as your business expense and reduce your business profits and income tax/NI accordingly.

The HMRC has recently issued guidance on the calculation of deductions of a number of household costs such as mortgage interest and telecoms/broadbands. This provides greater clarification for taxpayers on the types of deductions that they can claim.

Director of a company

If you run your limited company from home, it is possible to charge your company rent. The company will be able to deduct the rent from its profits and you will need to declare the rental income on your Self-Assessment return. On the face of it, there is no advantage with this arrangement.

However, if you also have buy-to-let properties that are making losses, you can utilize your rental income to offset the rental losses arising. This is beneficial as rental losses can not otherwise be used to offset your other income.

Employee of a company

You may be interested to learn that the HMRC has increased the tax free allowance that employers can compensate their employees for working at home. The rate has increased from £2 per week in 2007/08 to £3 per week in 2008/09. The allowance is intended to compensate employees for the additional costs of home working, heat and light, etc.

If you need further advice on any of the above, please contact us.

Tax relief on mortgage interest

Successful governments have cut or abolished tax reliefs on mortgage interest payments. But with a little planning, there are some tax saving opportunities especially if you run your own business.

For example, a married couple with a mortgage and other debts could arrange the husband to sell his shares to his wife in the private family company. The wife could take a loan to purchase the shares and the husband could use the proceeds to pay off the mortgage and other loans. As the wife has borrowed the money for the qualifying purpose of acquiring shares in a private company firm, the full amount of the interest qualifies for tax relief at her highest marginal rate.

As the transfer of shares is between husband and wife, there is no capital gains tax under the "inter-spouse" exemption rule.

If you wish to discuss the above arrangement further, please contact us.

VAT on internet sales and mail orders

If you make a high volume of sales of low value items on the internet or through a mail order business, you may wish to consider setting up an offshore company based in the Channel Islands to become more competitive by taking advantage of the "Low Value Consignment Relief".

In essence, the relief means that products can be shipped VAT free from the Channel Islands to the mainland UK if under £18 and to Europe if under €22. The products can therefore be sold and shipped at more competitive prices. Examples of low-value goods being sold from the Channel Islands include CDs, DVDs,

computer games, health products and contact lenses.

If you need help or further advice on setting up an offshore vehicle, please feel free to contact us.

Replacement or repair?

Taxman is keen to “disallow” your expenditure by saying the work is a replacement not a repair. The Finance Bill 2008 introduced new rules for determining what is a repair. These rules focus on two scenarios: (a) when the cost of the repair is more than 50% of the cost of replacing that asset at the time the expenditure is incurred; and (b) the total cost of repairs to the same asset in a twelve month period is not more than 50% of the costs of replacing it. These rules not only apply to assets acquired after 5th April 08 but also assets already owned at that date.

If you need help or further advice, please get in touch.

PAYE Inspections?

The taxman has recently changed his approach to what he calls compliance visits. You may be faced with 50 minutes of questions as the inspector works through the checklists.

Having computerized accounts system can come in handy, so you can simply print out what's in there for the inspector. Please get in touch if you would like to know more.

Fake HMRC emails

HMRC are warning taxpayers that they are aware of a high number of emails being sent out offering a tax rebate. The warning confirms that HMRC do not email taxpayers advising them of tax rebates or invite them to complete an online form to receive a rebate.

The advice goes on to say that anyone receiving such an email should not visit the website contained within the email or disclose any personal or payment information.

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