

TAX NEWSLETTER
MAY / JUNE 2015



Welcome to this month's Tax eNews. With another Budget fast approaching on 8 July, our first article looks at the anticipated announcements and some future predictions.

We also take a closer look at the tax relief available on fixtures in a building and the effect of an Option To Tax on a building for VAT purposes.

Please do contact us if you would like more information on any of this month's articles.

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Government announces date of Summer Budget

The Chancellor of the Exchequer George Osborne has announced that there will be a Summer Budget on Wednesday 8 July 2015.

Mr Osborne admitted that it was unusual to deliver two budgets in one year, but said he didn't want to wait to 'deliver on the commitments we have made to working people'.

'It will continue with the balanced plan we have to deal with our debts, invest in our health service and reform welfare to make work pay.'

'But there will also be a laser-like focus on making our economy more productive so we raise living standards across our country' he added.

So, what tax changes can we expect over the next five years? The ten changes listed below were first announced in the Conservatives' 2015 manifesto:

- Legislate to prevent an increase in VAT, National Insurance contributions or income tax.
- Increase the personal allowance to £12,500.
- Increase the 40p income tax threshold to £50,000.
- Legislate to ensure a tax-free minimum wage.
- Increase the inheritance tax threshold for married couples and civil partners to £1 million.
- Reduce the tax relief on pension contributions for people earning more than £150,000.
- Crack down on tax evasion and aggressive tax avoidance.
- Increase the role of the Office for Tax Simplification.
- Give English MPs a veto over English-only matters.
- Replace the Human Rights Act with a British Bill of Rights.

Some further possible changes that we might expect from the Budget, but which have not yet been announced could be as follows:

- Bringing in a joint income limit for couples under the High Income Child Benefit Charge to align the treatment of individuals and couples.
- A permanent increase in the annual investment allowance over and above the expected reduction to £25,000 expected from next January.
- More tax incentives for the creative industries.
- Increase in the top rate of capital gains tax for higher rate taxpayers.
- Possible combining, or at least aligning, of income tax and national insurance contributions.

We will keep you informed of the pertinent Budget announcements.

Internet links: [GOV.UK news](#) | [BBC news](#)

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Buildings and Tax Relief – Is It Too Late to Claim?

If you own a commercial building, and have done so since before April 2014, you may well be entitled to tax savings on the building's fixtures, e.g. the water systems, special lighting, sanitary and kitchen fittings, heating and electrical installations. This may also include any alterations or additions made to the building. Limited tax relief might still be available even if you have purchased the property since April 2014.

Capital Allowances

The relief will be available by claiming capital allowances, a form of tax depreciation, on the value of the fixtures, which will reduce your profits that are chargeable to tax.

Time Limit

Provided you still own the building and the fixtures on which you are claiming tax relief, there is no time limit to making a claim for the tax relief. However, you will only be able to amend returns that are still in time to amend, meaning some of the tax relief will be claimed against future profits as well as current profits.

However, making a claim can often result in an immediate tax refund.

Example

Peter, a sole trading higher rate tax payer, owns an office block, which he purchased in 2010 for £500,000. He has a tax valuation survey carried out in January 2015 on the property and we identify a fixture value of £150,000.

We amend his 2012/13 tax return by 31 January 2015 and get him an immediate tax refund of £8,190 for 2012/13, as well as an immediate refund for 2013/14 of £7,125. He will benefit from further tax savings of £47,685 over the rest of the ownership of the property, provided he enters into an appropriate election when he sells the property.

Total expected tax savings are £63,000 (£150,000 x 42%).

The Process

Accountants and bookkeepers do not automatically review additions made to buildings as this is a specialist area and often needs a tax valuation survey carried out: but such reviews can save significant amounts of money.

AG Tax Consulting are specialists at reviewing existing buildings and refurbishment programmes and so, if you own a commercial property or have added anything to your building in recent years, it may be worth checking with us to make certain you have claimed all the relief you're entitled to. For further information, please contact Tracey Watts at tracey.watts@albertgoodman.co.uk

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Opting to Tax - 26 Years On

Where a property is rented to a third party, the rental income will be exempt from VAT unless an Option to Tax has been made by the landlord.

The Option to Tax enables the landlord to reclaim VAT on any expenses he incurs in letting out and maintaining the property. The Option to Tax remains in place on a property for a 20 year period once made.

When the property is sold, the landlord has to charge VAT on the sale of the property. The buyer pays an increased price and also has to pay Stamp Duty Land Tax (SDLT) on the VAT inclusive price unless the purchaser is also registered for VAT, in which case it may be possible to transfer the property as a going concern. This means that VAT is not charged or payable, and SDLT is on a reduced amount.

Where a property is subject to an Option to Tax, problems are created where either the tenant or the new owner are exempt or partially exempt from VAT, such as dentists or charities. The Option to Tax regulations were introduced on 1 August 1989, so many properties have now fallen out of the 20 year period and it may be worthwhile for landlords to review their property status, or for tenants to query whether the Option to Tax should be removed.

Example

Nigel owns a property with an Option to Tax election in place, with a market value of £500,000. The selling price will therefore be:

Sale proceeds	£500,000
VAT	£100,000
SDLT	£24,000
TOTAL	£624,000

A potential buyer has been identified, David, but as David is a dentist, most of his income will be exempt from VAT, producing a big input tax block on the £100,000 VAT bill.

However, if Nigel's Option to Tax election had been in place for 20 years, he could revoke the option with HMRC so that his future income from the property will be exempt rather than standard rated. The cost to David will therefore be reduced, saving £109,000 as follows:

Sale proceeds	£500,000
VAT	£0
SDLT	£15,000
TOTAL	£515,000

If your business is either exempt or partially exempt from VAT, it may be worth contacting any landlord who charges you VAT on your rental income to see whether there is scope for them to revoke their Option to Tax election under the 20 year rule.

Not every landlord will be willing to remove the election as it may put some high tax input claims at risk if they carried out extensive property improvement work within the last 10 years (exceeding £250,000 excluding VAT) and have outstanding periods of adjustment with capital goods scheme.

If you would like further information, please contact Andy Branson at andy.branson@albertgoodman.co.uk

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Main residence tax relief – will you get yours?

It is commonly thought that if you sell your main residence, you will not have a capital gains tax liability. However, what qualifies as a main residence can be difficult to establish, particularly where someone may have a number of properties available to them or where they are renovating properties.

A number of cases have come before the First-tier Tribunal over the years and the Tribunal held in many cases that main residence relief was not due.

“Main residence” is not defined in tax statute and takes its ordinary meaning, as well as that which has been built up over the years by case law.

“Residence” means to dwell permanently, although time alone is not normally a factor, rather the quality of occupation in that it has to be the individual's “home”.

Documentary evidence will be required and the cases heard at the First-tier Tribunal, referred to above, have failed on this account, with owners not being able to produce evidence such as having their post redirected to a particular property or being connected to utility supplies and consuming a reasonable level of those utilities. Some of the owners had also claimed exemption from council tax at the same time they were claiming that they lived in those properties. It was also noted that the owners had not been able to demonstrate that they had lived there as a main residence rather than for the purposes of simply renovating the properties.

A couple of the taxpayers also claimed they had lived there whilst splitting from their partners, but again they were not able to support this with any documentary evidence and all later got back with their estranged partners.

Main residence relief is a valuable relief but should not be relied on in exempting any capital gain particularly where the taxpayer is unable to provide documentary evidence, or where there is a pattern of property purchase, ownership and disposal by owners involved in the building industry.

If you are intending to rely on this relief, you should seek professional advice, to ensure you are properly able to support your claim.

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Entrepreneurs' Relief – Do Your Assets Qualify?

The top rate of Capital Gains Tax (CGT) is currently 28%. Entrepreneurs' relief (ER) reduces the rate to 10% on gains up to £10million, giving tax savings of £1.8million and £3.6million (married couples). To ensure you benefit from this valuable relief, it is important you consider your assets, ownership and use, prior to any sale.

We have been involved in a number of cases recently where maximising a claim to ER has been crucial and the complicated ER rules has required careful planning prior to sale. In particular you may need to consider:

1. A cessation or transfer of a business. For example the sale of one field from a farm may not qualify for ER, whereas the sale of the whole farm or major part of the farm such as on cessation of a dairy enterprise may qualify. Incorporation or introduction of a further partner could protect the relief.
2. Timing of sale will be crucial as there are strict time limits in ownership and use.
3. If the asset has not always been in 100% business use, or where rent has been paid, relief may be restricted. Careful planning prior to sale can cleanse restrictions.
4. Trustees and executors do not qualify for ER in their own right. However beneficiaries with a life interest may qualify on behalf of the Trustees.
5. Where you have let properties planning could be put in place for a one year period before sale to ensure they qualify at least in part for ER.
6. Where land is let under grazing agreements they, together with the practical day to day activity, should be considered well in advance of the sale to ensure the land qualifies for ER.

This is an extremely valuable relief, which can easily be lost. If you are considering a sale you should take advice early on to ensure you benefit as far as possible from ER.

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Using Trusts

Trusts are often dismissed by business owners as being too complex and costly to operate, but they can offer significant inheritance tax (IHT) savings.

Example

David owns all the shares in Machine Limited, a manufacturing business in Somerset worth £4 million. He has a wife, Sheila, and two adult daughters. David dies in June 2015 and leaves his entire estate (shares and family home) to his wife.

His entire estate passes tax free to Sheila and she enjoys the dividends paid out from Machine Limited for a few years, before she sells the shares to a third party in December 2021 for £5 million cash.

Sheila doesn't need this cash and is now worried about her IHT position. She gives away the cash to her children and, provided she lives for 7 years, no IHT will be payable by her estate on this, saving a possible £2 million.

Sadly, Sheila dies shortly after in August 2022 and her full estate is chargeable to IHT at a total cost of £2.14 million (£6 million - £650,000 nil rate band x 40%).

With a Trust

The position is as before, except this time, David leaves his shares in Machine Limited to a discretionary trust when he dies, rather than to Sheila. No IHT is payable by his estate as the shares are covered by business property relief.

The dividends that are paid out on the shares are still passed to Sheila under the terms of the trust and so she is no worse off than before, and when the shares are sold in December 2021, the trustees pass the cash out to Sheila's children.

When Sheila dies, the cash that was in the trust does not form part of her estate in any way and so her estate only has to pay IHT on her home of £140,000 (£1 million - £650,000 nil rate band x 40%).

The trust does have to an exit tax charge of £179,156 on the cash gift made to the children, but this still gives an overall tax saving of £1,820,844.

Tax Savings

There is no doubt that using trusts can save you tax but it is always important to seek advice before setting a trust up. If you'd like further information, please do get in touch.

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Have you received your 2014/15 PAYE calculation?

Each year, as part of the PAYE system, HMRC reviews the tax position of individuals who do not complete self assessment tax returns to ensure that they have paid the right amount of tax.

The 2014/15 reconciliations are now underway and those individuals concerned should receive a P800 showing their PAYE income for the year and any underpayment or overpayment of tax.

All calculations should be issued by the end of October. If a refund is due for the year, the calculation will be received first with a cheque following around 2 weeks later. You do not need to do anything to claim the repayment but you should contact HMRC if a cheque is not received within a few weeks of the calculation.

We would strongly recommend that you check the calculation to ensure it is accurate. Discrepancies can arise for various reasons such as changing jobs part way through the year, changing the benefits you receive from your employment, or receiving investment income during the year. Any differences should be reported to HMRC so that they can recalculate the position.

If you would like any help with checking your calculation then please do get in touch.

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Update on the marriage allowance

Eligible married couples and civil partners are entitled to the new marriage allowance from 6 April 2015. The allowance could save couples up to £212 of tax each tax year by allowing one of the couple to transfer part of their personal allowance to the other where it is unused. The maximum amount that can be transferred is 10% of the standard personal allowance i.e. £1,060 for the current tax year.

Provided the various conditions are met, a claim must be made in order that the allowance is transferred. At present, an individual can only claim to transfer the marriage allowance to their partner by registering online at <https://www.gov.uk/marriage-allowance>. The individual must use the GOV.UK 'Verify' procedure to confirm their identity. There are certain circumstances where the individual will not be able to use Verify, for example if they do not have a UK passport or driving license.

If you are unable to confirm your identity using Verify, you will need to call HMRC's PAYE helpline on 0300 200 3300. The individual calling HMRC must be the individual who is transferring part of their allowance and you will need to have details of both your own and your partner's national insurance number, date of birth and address.

It is anticipated that in future it will be possible to claim the allowance without first registering at GOV.UK but we will provide further details if this is announced.

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Relaxation of penalties

There has been a lot of coverage in the press recently regarding HMRC's approach to £100 penalties for people sending in their tax returns late.

As part of HMRC's new 'planned, proportionate approach to penalty appeals' it has been suggested that they will more readily accept reasonable excuse appeals against penalties for late filing and late payment under self assessment and RTI by taking a more risk based approach. This should mean that the majority of reasonable excuse appeals are accepted without the need for review, provided the return has been submitted and payment made.

In future it is hoped that HMRC will move away from sending out automatic penalty notices as a reaction to a single missed deadline, and instead they should be able to track patterns of behaviour so they focus on those who persistently fail to pay or send their tax returns on time.

If you have been issued with a late filing or payment penalty and would like help or advice to appeal against this, please get in touch.

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Care and support workers employment allowance

From 6 April 2015, the £2,000 employment allowance available to employers to reduce their national insurance bill each year has been extended to include employers who employ care and support workers.

The person that is being cared for must need care for one of the following reasons to qualify for the allowance:

- Old age,
- Mental or physical disability,
- Past or present dependence on alcohol or drugs,
- Past or present illness,
- Past or present mental disorder.

In addition, **all** of the duties of the care and support worker have to be in relation to the individual(s) who need care, so the care and support worker cannot help out with others in the home who do not need care e.g. normal childcare duties.

It appears that the take up of the allowance has been slow and it is felt there is a general lack of awareness about the allowance, especially for care and support workers. If you would like any information on what you are entitled to claim then please do get in touch.

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HMRC payroll guidance - harvest casuals and casual beaters

HMRC have issued useful guidance for those employers who pay casual employees working outdoors harvesting perishable crops, or as casual beaters for a shoot.

The guidance outlines the specific circumstances which must apply in order for these employees to be paid without the deduction of tax. The guidance also stresses that their pay is still taxable income and these employees must ensure that any tax due is paid.

Monthly penalties (of between £100 and £400 depending on the size of the employer) now apply to broadly all employers who fail to submit necessary information to HMRC via the Full Payment Submission (FPS) on or before the time wages are paid to employees. It is therefore important that the rules are complied with and returns are submitted on a timely basis.

Please contact us if you would like help with payroll issues.

Internet links: [GOV.UK news](#) | [GOV.UK late return penalties](#)

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Advisory fuel rates for company cars

New company car advisory fuel rates have been published which took effect from 1 June 2015. Please take care to update your expenses payments and note that only some rates have been amended. However, the guidance states: 'You can use the previous rates for up to one month from the date the new rates apply'. The rates only apply to employees using a company car.

The advisory fuel rates for journeys undertaken on or after 1 June 2015 are:

Engine size	Petrol
1400cc or less	12p
1401cc - 2000cc	14p
Over 2000cc	21p

Engine size	LPG
1400cc or less	8p
1401cc - 2000cc	9p
Over 2000cc	14p

Engine size	Diesel
1600cc or less	10p
1601cc - 2000cc	12p
Over 2000cc	14p

Other points to be aware of about the advisory fuel rates:

- Employers do not need a dispensation to use these rates. Employees driving employer provided cars are not entitled to use these rates to claim tax relief if employers reimburse them at lower rates. Such claims should be based on the actual costs incurred.
- The advisory rates are not binding where an employer can demonstrate that the cost of business travel in employer provided cars is higher than the guideline mileage rates. The higher cost would need to be agreed with HMRC under a dispensation.

If you would like to discuss your car policy, please contact us.

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HMRC issue guidance on VAT reclaims by qualifying charities

HMRC have issued guidance on VAT reclaims by 'qualifying charities' under recent changes to the rules. 'Qualifying charities' for this purpose are those concerned with palliative care, air ambulance, search and rescue and medical courier charities.

The guidance details which charities are eligible to use the refund scheme to claim a refund of VAT incurred on goods and services used for their non-business activities. It also covers issues such as what to do when circumstances change, what falls within the scope of the refund scheme and how charities can make a claim.

If you would like any guidance on this or any other VAT or charity issue please do get in touch.

Internet link: [GOV.UK news](#)

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65+ Guaranteed Growth Bonds a success

HM Treasury has announced that the National Savings and Investments 65+ Guaranteed Growth Bonds have been bought by more than a million older savers, who made total investments of over £13 billion. These investment figures make the product the best-selling retail financial product in Britain's modern history.

The '65+ Guaranteed Growth Bonds' from National Savings and Investments went on sale in January 2015 and offered savers aged 65 and over an opportunity to boost the return on their savings by investing up to £10,000 per bond at fixed annual interest rates of 2.8% for one year bonds and 4% for three year bonds.

The Bonds are no longer available to purchase as the investment window closed on 15 May 2015.

Internet link: [GOV.UK news](#)

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