client briefing

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contents

Make the most of Gift Aid

Many taxpayers whose affairs are relatively simple are being told by H M Revenue and Customs that they will no longer need to lodge a tax return. If you are in this position then this is welcome news. However, you will have to remember in future years that if you receive any income such as gross interest or rent which has not paid tax at source, or realised capital gains in excess of your annual exemption or are a higher rate taxpayer and receive investment income net of tax you may have tax to pay. In all these circumstances, you will have to ask H M Revenue & Customs for a tax return. Alternatively, speak to us and we will be able to assist.

If you are a higher rate taxpayer and make gift aid payments, unless an adjustment is included in your PAYE notice of coding, you will not receive the higher rate income tax relief. And so, if you are in the habit of making substantial donations under gift aid you should continue to send in tax returns so that you receive the extra tax relief to which you are entitled.

This point does not arise in the case of basic rate taxpayers as, for example, an individual making a charitable donation of £78 under gift aid is deemed to have made this net of basic rate tax with the charity reclaiming £22 from the Inland Revenue. A higher rate taxpayer in these circumstances is entitled to further tax relief of £18 paid or credited to him or herself.

When thinking about married couples, in many instances one spouse is paying income tax at

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the higher rate while the other is liable only at basic rate or perhaps not liable to tax at all. The spouse who is liable at basic rate may, however, be making gift aid donations to, for example, the local church. It would be better, from a tax point of view, if the gift aid donation was made by the individual who is paying tax at the higher rate as extra relief will be received without affecting the position of the charity. If you are in this position you should think about rescheduling your charitable giving.

Child Care Vouchers are tax free

From 6 April 2005, it has been possible for employers to provide child care vouchers of up to £50 per week to employees without the employee being subject to tax.

Not many employers will be able to afford to provide £2,600 worth of vouchers to each eligible employee every year but could instead consider a salary sacrifice arrangement.

Under this option the employee could reduce his annual salary and receive vouchers.

The savings for each employee can be significant. For example, a basic rate taxpayer who is also suffering employee's national insurance at 11% and who sacrifices £2,600 per annum will only be £1,742 worse off because of the PAYE and NIC which he suffers on his salary. For a drop in net salary of £1,742, he will receive vouchers worth £2,600 which are passed to the provider of the child care.

Employers will also save national insurance at 12.8%.

For the vouchers to qualify, they must:

- Be provided to enable the employee to obtain care for his/her child or step-child who he/she wholly or partly maintains
- Only be used to obtain qualifying child care
- Be provided under a scheme open to all of the employer's employees or to those at a particular location

Vouchers can be obtained from some sixteen English based voucher organisations and a list of these can be found on the website of the Daycare Trust in 'frequently asked questions' – www.daycaretrust.org.uk. Further guidance is available from H M Revenue & Customs website at www.hmrc.gov.uk/childcare/index.htm.

Tax Efficient Cars – don't miss out

Back in 2002 the government introduced rules whereby the small group of cars with CO_2 emissions of 120gm/km or less qualified for a full 100% first year allowance. This meant that the whole cost of these cars could be written off against tax in the year of purchase. You should note that there are now a larger number of cars which qualify (including small Mercedes and Audis) for this favourable treatment. These cars also benefit from low benefit-in-kind charges for income tax. It should be noted that under current rules the 100% first year allowance treatment is due to be withdrawn for cars registered after 31 March 2008.

On a separate cars issue, readers will know that the income tax charged on an employee where a car is provided by the employer is based on a percentage of the car's price varied according to the level of the car's CO_2 emissions. A 3% supplement applies to diesel cars first registered after 31 December 1997 but this supplement does not apply to diesel cars meeting the Euro IV Emissions Standards until 5 April 2006 after which time it will apply to all cars registered on or after 1 January 2006. Therefore if you are interested in diesel cars you should act quickly.

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Self-Invested Personal Pensions

In recent years many people have been put off from contributing to pension funds as a result of poor stock market performance and a number of “scandals”.

Pension schemes have many advantages, not least tax, including relief on contributions and tax free growth.

One means of achieving the best of both worlds is to consider a self-invested personal pension. All of the tax advantages remain but you control the investment decisions. At present, for example, you are able to invest in commercial property such as shops and offices and after 5 April 2006, the types of assets into which a pension fund can invest is being widened to include residential property and tangible moveables such as paintings.

Most insurance companies provide the facilities for your personal pension to be self-invested although they may require some of the fund assets to be invested with them or, alternatively they will make a charge for their services.

Alternatively, you can use the services of professional trustees who will look after the administration and regulatory requirements. There are a number of firms who provide this service and their charges compare favourably with charges made by insurance companies. For example, there may be an initial fee of around £200 to set up the SIPP and annual charges of around £400. Most firms of pensioneer trustees will provide a schedule of their charges.

It is possible for your existing pension funds to be transferred to your SIPP but you should take professional advice before considering this.

SIPPs, and pension funds in general, are also extremely helpful in facilitating inheritance tax planning. If you have built up a pension fund which can produce an income to maintain your living standard in retirement, you will not need income from other sources which may allow you to gift capital, such as investment properties, company shares and bank deposits.

Remember also that, after 5 April 2006, it will be possible for your SIPP to acquire investments from you.

Pricing in proportion

Hopefully you have noticed that your Client Briefing has reduced in size this issue from the standard A4 to A5. We hope you like the new style and find it more convenient. The change was made in anticipation of the way postage is to be priced by Royal Mail from next year.

Mail will fit into 3 categories: letter, large letter and packet and pricing will vary according to both size and weight. At present, a standard A4 letter under 60g posted in a C4 envelope costs 30p first class. Under the new method the cost will rise to 42p, as a large letter. Helpfully, Royal Mail is increasing the weight limit to 100g but there are simpler ways you can control your postage costs. You can, for example, fold your standard A4 in half to fit a C5 envelope thereby maintaining the first class postage at 30p.

Full details of the new scheme, with details of the new rates and lots of helpful tips on managing your post room function to control costs, can be found at www.royalmail.com under Pricing in Proportion.

Husband and Wife Companies

In our June 2005 edition, we focussed on the English High Court decision in Jones -v- Garrett, which related to the wife’s dividend income from the company being taxed as if it were her husband’s.
The outcome of the taxpayers appeal is due shortly and will allow taxpayers and their advisers to make a more informed decision for self assessment purposes prior to the filing deadline of 31 January 2006.

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Trustees – Action Point by 5 April 2006

Trustees of Discretionary Trusts, including accumulation and maintenance settlements, are liable to income tax at the higher rate on income above £500.

If trustees of such Trusts distribute income to beneficiaries, the beneficiaries are deemed to receive the income net of tax at 40%. A beneficiary who receives £600 from a Trust is therefore deemed to have received £1,000 with income tax of £400 deducted at source.

If the beneficiary is not a higher rate taxpayer or indeed not a taxpayer at all then some or all of the £400 can be claimed from H M Revenue & Customs. This will particularly apply to beneficiaries who are in full-time education with little or no other income.

If you are a trustee of a Trust, it will be worth considering the circumstances of the beneficiaries as the making of a distribution to them by 5 April 2006 may allow the beneficiaries to utilise their personal allowance to reclaim significant amounts of tax.

Contact us if you would like more information.

Health and Safety – What a business must do

Every business has some responsibilities to consider health and safety. There are many detailed provisions and requirements which depend on the size and nature of your business. However, there are two basic things which any business must consider:

Risk Assessment

Basically the business must look at its activities or premises and decide what could cause harm to people, and how precautions could be taken to minimise the harm.

Health and Safety Policy

A business with 5 or more employees must have a written health and safety policy statement. Every business must at least consider how it is going to manage the health and safety aspect. It is good practice regardless of the size of your business to at least prepare a short written health and safety policy.

Additionally, most businesses must provide health and safety training for their employees. They must provide toilets, washing facilities and drinking water, a business must display a health and safety law poster or provide employees with some other written form giving the same information. Employers and self-employed also generally need to report some work related accidents, dangerous occurrences or diseases, and of course every employer requires Employer's Liability Insurance and must display a certificate in his workplace.

Detailed information is available from health and safety consultants and also a lot of helpful tips are available on the Health and Safety Executive website which is www.hse.gov.uk.

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