

## *Tax Factsheet – July 2005*

*Welcome to the July edition of our monthly Tax Factsheet.*

*The issues covered in this Factsheet are aimed at providing outline guidance only, and further specific advice may be needed before decisions are taken.*

### **Inland Revenue enabling letters**

Last month we commented on the Revenue's campaign to warn taxpayers about the need to complete accurate Tax Returns by selecting certain small businesses to receive 'enabling letters'.

Having now seen an example of this standard letter, it is clear the letter is somewhat aggressive in tone, and does little to help relations between the Revenue, the taxpayer and the professional agent.

We would stress that if you receive an enabling letter, there is no need to panic. Receipt of the letter does not suggest that you have done anything wrong, nor should it mean that you are any more likely to receive a full Revenue tax enquiry. Nonetheless, it makes sense to advise your agent if you get one of these letters.

*Contact Robert Bradley if you would receive an enabling letter and would like to discuss the possible reason for selection.*

### **PAYE - coding out other Self Assessment income**

If you have income included in your Self Assessment Return in addition to income on which you pay tax through PAYE, the Inland Revenue may try and 'code out' the Self Assessment liability.

However you will probably find that there is a cash flow advantage if the tax due on your self-assessment income is paid on the usual 31 January and 31 July due dates rather than being dealt with through your PAYE code.

To ensure such income is not included in your PAYE coding, you should contact the Revenue and ask them to remove the collection of it from the tax code.

Note that if other income is coded out for the first time in 2005/06 and you remain in self-assessment, then payments on account will still be based on 2004/05 liabilities. This means that income may be double-counted and result in overpayment until your 2005 Tax Return is done, unless you make a claim to reduce payments on account.

*Please contact Robert Bradley if you would like any assistance with tax coding issues.*

**Inheritance tax planning – don't overlook the basics**

The level of the Inheritance Tax (IHT) nil rate band (currently £275,000), above which people are potentially liable to a 40% tax charge in respect of a Death Estate, means that Will and Inheritance Tax planning is a growing area for professional firms.

This form of tax planning is invaluable, but is complex and needs great care.

Do not forget about some perhaps obvious, but often over looked, *lifetime* IHT planning opportunities that will help reduce a Death Estate. These include:

- Take advantage of the Capital Gains Tax spouse exempt transfer rule to move assets from a surviving spouse to one who may be long term ill in order to wipe out a potential Capital Gain
- Give your assets away during your lifetime if you can afford to, and then survive the gift by 7 years. If so, the assets will not be part of your Estate as long as you do not continue to derive benefit from the gifted asset.
- Remember your £3,000 per annum IHT exemption. This is per person, and you can double up to £6,000 per person if a year missed.
- Wedding gifts can be made by family members up to certain limits, and will be exempt from IHT to reduce your Estate.
- Charitable gifts are exempt during lifetime as well as on death.
- Business and agricultural property relief will exempt the transfer of business assets, shares, etc both during lifetime and on death. There are certain qualifying conditions that must be met.

*Inheritance Tax and Will planning should be given careful thought. There are ways and means of avoiding IHT. Please contact Robert Bradley if you would like to arrangement an appointment to see if we can help you.*

**Buying property in France or Spain**

Owning a property overseas is no longer a prerogative of the wealthy.

Low prices on the continent are attracting many UK investors. Sometimes the purchase is simply to generate an income from letting, but in many cases it is to provide a semi-permanent base in the other country.

The 'base' may become permanent if people choose to retire there or decide that the opportunities for business or employment are better.

There are many issues to take into consideration in deciding to make such a purchase, and most of those will have nothing to do with tax. However, there are some important tax issues which do need thought. Indeed a failure to give them some consideration could be expensive....

The key tax issues that need to be considered are:

- The impact the purchase and subsequent living arrangements may have on residence for tax purposes both in the UK and in the country where the property is located
- The impact of local tax issues
- The impact on UK tax liability

France and Spain are the most popular choices for property investment, and as well as having different income tax regimes and rates, there are important differences in the Inheritance Laws on which advice should be sought.

You need to be aware not only of the direct tax implications, and the short and long term impact on your residency status; but also local legal advice is essential.

*Overseas property investment is a complex area, but we are able to help with advice, tax reports, etc. Please contact Robert Bradley if you would like any assistance.*

### **Tax Diary July/August 2005**

**5 July 2005** last day to reach PAYE settlement agreement for 2004/05

**6 July 2005** submission deadline to the Inland Revenue for forms P11D(b), P11D and P9D. Ensure employees are given copies or extracts by the same date.

**19 July 2005** payment by post or cash of 2004/05 Class 1A NIC liability in respect of employer benefits and expenses

**22 July 2005** payment by an approved electronic payment method of 2004/05 Class 1A NIC liability

**31 July 2005** deadline for 2<sup>nd</sup> 2004/05 income tax payment on account, based on 2003/04 tax liability

**2 August 2005** submit forms P46 (car) for quarter ended 5 July 2005

For further assistance on any of the issues raised, please contact Robert Bradley, Tax Manager at Turner and Smith on 01509 212890 or email [robert\\_bradley@turnerandsmith.co.uk](mailto:robert_bradley@turnerandsmith.co.uk)

**All due care has been taken in the preparation of this fact-sheet. The authors can accept no responsibility for loss occasioned to any person acting or refraining from action as a result of any material in this publication.**