

## Tax Factsheet - June 2006

*Welcome to 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.*

- ***The Revenue want you to pay your tax earlier....!***

In recent months there has been a shift in emphasis by the Inland Revenue toward attempting to remove people from the Self-Assessment system in favour of collecting any income tax due for the year automatically through revised tax codes applied to PAYE earnings.

Although many people will welcome the removal of the requirement to complete annual Tax Returns under the Self-Assessment system, the Revenue's approach toward collecting income tax under PAYE has not generally been well received.

This is for 2 main reasons:

- The Revenue have been making these changes without the taxpayers permission, and is offering to revert to the old method only if the taxpayer protests
- It pushes forward the collection date for tax from 31 January after a year end to a monthly instalment collection under PAYE *during* the tax year

The problem is that the Revenue's record of getting PAYE tax codes right is not great. Not only is it difficult for the non-tax expert to spot PAYE errors; it is not easy to then get code notices amended.

The Revenue should at least offer people the choice of the 2 collection methods, rather than foist PAYE coding collection upon them.

So remember that you do not have to accept having to pay your self assessment income tax under the PAYE coding method.

You can contact the Revenue and insist that you remain under the Self-Assessment system if you prefer to pay your tax after the year-end, or if you have any doubts about the accuracy of the Revenue's attempt to collect tax under the PAYE system.

*Please contact Robert Bradley on (01509) 212890 if you have been presented with revised PAYE coding notices (or letters advising that you are not required to complete a Tax Return), and would like some assistance.*

- **Trust tax planning & 2006 Budget changes**

Last month's Factsheet mentioned that the 2006 Budget has radically restructured the trust tax system - with potential Inheritance Tax (IHT) implications.

Some have reported that the changes will increase the tax bills of at least 100,000 families. However (predictably) the Government insists that the crackdown on IHT planning will affect only a tiny number of families.

So what are these changes, and who may be affected?

Basically, from 22 March 2006 new IHT rules apply to Life Interest (LI) and Accumulation and Maintenance (A & M) Trusts.

LI trusts are commonly used to protect an inheritance when someone has remarried. They are set up so that on the 1<sup>st</sup> death of a remarried couple, provision is made IHT free under spouse exemption rules for the 2<sup>nd</sup> spouse (life tenant) during their remaining lifetime.

Then, the LI trust will generally stipulate that the capital passes to children from the 1<sup>st</sup> marriage.

A & M trusts are usually set up by parents who wish to pass on assets free of tax, while preventing them from being squandered! Typically they allow children to draw income from assets held in the trust until they reach 25, when they acquire the capital.

Previously, there was no entry charge on transfers of assets into both types of trust - they were deemed Potentially Exempt Transfers which would not form part of the Settlor's (donor's) Estate at all provided they survived the transfer by 7 years.

From 22 March though, transfers into LI and A & M trusts will be subject to:

1. An immediate lifetime IHT charge if the transfer (plus cumulative transfers in the previous 7 years) exceeds the IHT threshold - which is currently £285,000.
2. Periodic 10 year IHT charge of 6%
3. An exit IHT charge

Anyone considering IHT and Will planning should be aware of these new rules.

Similarly, people with existing LI and A & M Trusts should review their trust deeds and Wills, as a certain amount of tax planning can be put in place.

*This is a complex, but hugely important area. Please contact Robert Bradley on (01509) 212890 if you would like to discuss these changes and how we can help.*

- **Beat the repayment queue...!**

The 2005/06 tax year ended on 5 April 2006, which means that the personal Tax Return season has already started.

By now, you should have received your occupational (and pension income) P60's, bank and building society tax certificates, and you will have received all dividend tax vouchers as and when dividend payments were made. If applicable, your P11D summary of benefits and expenses should be given to you by 6 July.

Although the deadline for submitting 2005/06 Tax Returns is 31 January 2007, there is an advantage in filing your Tax Return as soon as possible if you are due a repayment of tax.

By filing quickly, (and preferably online), you will get any repayment due to you a lot earlier at this time of the year.

From late summer onwards the Tax Return repayment submissions start to backlog, and people are often kept waiting for a few weeks or more for their cheques or bank credits.

*Please contact our Tax Manager, Robert Bradley if you would like any assistance with filing your 2006 Tax Returns.*

- **Tax Diary - June 2006**

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| <b>1 June 2006</b>  | Check that all employees have been given copies of their P60's for the tax year ended 5 April 2006             |
| <b>1 June 2006</b>  | Corporation tax due date for the year ended 31 August 2005   |
| <b>1 June 2006</b>  | Confirm CT600s for the year ended 31 May 2005 have been submitted to the Inland Revenue                        |
| <b>19 June 2006</b> | PAYE and NIC deductions due for the month end 5 June.<br>(If you pay electronically, the due date is 22 June). |

*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.*