

Tax Factsheet - September 2006

*Welcome to the September 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.*

Mixed-use mortgages

As the process for both taking out and restructuring loans and mortgages becomes less complex, more people are taking out mixed-use mortgages.

This is particularly common where a taxpayer buys premises, which consist of a business unit attached to residential accommodation.

Often an increased mortgage or loan is taken out to fund only the business premises because the domestic part could easily be paid for out of the sale proceeds of the existing home.

Logic would allow the taxpayer to claim tax relief for the new loan or mortgage interest against his or her business profits.

However, the Inland Revenue takes a different view and applies mixed-use rules. A recent tax case (Dixon SpC 531) backed up their views.

Essentially, the Revenue will contend that because the property is put to mixed-use, then loan interest relief is only available in proportion to the part that the business element bears to the total premises.

This is the case even if it is perfectly clear that the mortgage was needed to buy just the business premises. The taxpayer's error in the above case was that the documentation didn't show that the sole purpose of the mortgage was to help fund the business premises - had he done, it would have been more difficult for the Revenue to apply the mixed-use rules under S34 ITA 2005.

To alleviate these problems ensure that the paperwork details the fact that the loan is for business use only. If required, actually take out two loans with as much of the borrowing as possible to apply to the business loan.

If you are in a position to make additional capital repayments, then subject to seeking specific financial advice, reduce any loan on the privately used part of the property first, or reduce any other business borrowings with non tax-deductible interest.

If you think that the mixed-use problem is relevant to you - particularly in light of the Revenue's victory in the Courts - please contact Robert Bradley on (01509) 212890.

The Taxman cometh.....again!

Yet another slightly worrying initiative to supposedly help taxpayers has been launched by the Revenue. This time the Taxman has called it 'interventions'.

People who have recently filed Tax Returns (or whose agents have filed on their behalf), could get a letter or phone call from the Taxman asking them to answer a few questions, arrange a home visit, or possibly agree to changes the Taxman has already made to the Tax Return!

Some of the letters include questionnaires to complete, or ask the taxpayer to look again at business expenses.

All of this is of course in addition to the normal enquiry system!

On their website, the Revenue says of the interventions "*we expect that the area we are looking at can easily be resolved without an accountant*". However, this comment doesn't seem to reflect the fact that the issues raised by the Taxman in the letters issued so far can be pretty complicated.

The Revenue could be implying that the taxpayer has done something wrong, and may be hoping that the taxpayer will simply pay any additional tax they believe is due without questioning whether a mistake has actually been made.

So if you receive a letter or phone call from the Revenue, remember that you do not have to co-operate if you don't want to. So tell the Revenue you want to speak to your agent and will get back to them.

Tell your advisor as soon as possible, and don't be drawn into agreeing anything over the phone.

Furthermore, if you have agreed to co-operate with the Taxman's questions, but find you are discussing issues you don't fully understand, remember that you can pull out at any time.

There is a chance that the Revenue could start a formal enquiry, but in doing so this gives the taxpayer legal recourse via the appeal system.

Also remember that Turner & Smith offer a competitive fee protection insurance scheme to cover the costs of our fees in connection with dealing with Revenue enquiries.

If you have received an invite to co-operate in the Revenue's voluntary intervention scheme, or are concerned about the possibility, please contact Robert Bradley to discuss. Robert can also offer advice on our enquiry fee protection scheme.

Small Business Rate Relief (SBRR) - application deadline

An article in our December 2005 factsheet gave details of the new SBRR scheme.

Please now note that the deadline for submitting applications for SBRR 2005/2006 in England is 30 September 2006.

The amount of relief that you may be able to claim depends on the rateable value of all the business properties that you own.

If the rateable value of all properties you own is below £5,000 (in Scotland £3,000) you will be eligible for a 50% relief. This reduces as the rateable value rises.

Forms are reasonably easy to complete, and we have found a simple on line questionnaire at www.leaseholdersunited.com that tests eligibility.

For smaller business property owners this is a relief not to be missed.

If you need any help with a claim, please contact Robert Bradley on (01509) 212890.

Tax Diary - September 2006

- 1 Sept 2006** Corporation tax due date for the year ended 30 November 2005.
- 1 Sept 2006** Confirm CT600's for the year ended 31 August 2005 have been submitted to the Inland Revenue
- 1 Sept 2006** Second 5% surcharge now imposed on any unpaid 2004/05 income tax, capital gains tax and Class 4 NIC
- 19 Sept 2006** PAYE and NIC deductions due for the month end 5 September 2006. (If you pay electronically, the due date is 22 September)
- 30 Sept 2006** Last date to submit paper 2005/06 Tax Return if you want the Inland Revenue to compute your tax liability, or if you want to have unpaid tax of up to £2,000 collected through the 2007/08 PAYE code.

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

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.