All change! Salary Exchange!

If you are an employer it may be beneficial to allow employees to exchange some of their cash payments for pension contributions, childcare, cars, bicycles and items of technology.

Salary exchange involves an employee swapping some of their salary for a benefit of choice, incentivised by a saving of PAYE and NIC on the amount sacrificed.

The incentive for the employer is a saving of the employers NIC and this type of arrangement will be of particular interest to employers who are entering the new Workplace Pensions Regulations for the first time. Savings of NIC on pension contributions could help ease the additional costs.

There will be some additional administration but often these items are supplied via online portals thus minimising the burden.

As an employee, not only could you save the tax and NIC on the amount exchanged, but for higher and additional rate taxpayers the exchange of a part of salary could move you into a lower band of tax charge, save some or all of your personal allowance from being withdrawn and potentially save the removal or need to repay child benefit.

The salary exchange benefit for child benefit

Child benefit is clawed back where the annual taxable income of either the claimant or the claimant's partner exceeds £50,000. The amount withdrawn is 1% of the child benefit for every £100 of income exceeding £50,000 so at £60,000 of income the benefit is lost.

The claw back is based on the individual's income and not the household's income and so if the partners can keep their incomes below £50,000 by exchanging some salary for pension contributions or other salary exchange items then the child benefit will not be clawed back.

Potentially an all-round winner which your client manager can discuss with you.

Hold on to your deposits!

A deposit is normally taken from a tenant when they move into a property. This deposit is to secure the owner against potential damages, repairs or upkeep that the tenant has not undertaken despite any obligations existing in the tenancy agreement.

The usual practice is to return the deposit at the end of the tenancy, less any deductions for 'dilapidations'

For your tax return, the deposit only needs to be shown as income at the end of the tenancy and only if it is not returned to the tenant in full. The owner is only entitled to some or all of the deposit at the end of the tenancy and if it is all returned then there is nothing to declare.

If there are any deductions at the end of the tenancy then the deposit is included as income in the accounts and the cost of repair as an expense. If the repair costs are greater than the deposit then either the tenant pays a further payment to the owner as compensation in addition to the amount of deposit or the additional expense is deducted from the rental income, thus reducing the income.

We are here to help

We can help you by ensuring that you're aware of the changes that will affect you, your family and your business. To find out more about the ways that we can help you, do not hesitate to contact us.

David Stonefield & Co. Ltd.
Chartered Accountants
70 Grasmere Road, Gatley, Cheadle,
Cheshire, SK8 4RS

Mobile: 07879 882277 Fax: 0161 282 8384
Email: david@davidstonefield.co.uk
Web: davidstonefield.co.uk

design : brightstar-creative.com

Dreaming of living abroad?

With the winter weather blowing cold over the UK, you would not be blamed for dreaming of emigrating to hotter climates but for many UK residents each year this becomes a reality and if this is part of your plan in the coming months or years, or that of a friend or family member, it is vital to take advice well in advance of the move. There are certain advantages and tax breaks when leaving the UK permanently but there are stringent regulations and these have to be complied with before the home is sold and the removal vans are booked!

To take advantage of the tax breaks available it is important to establish yourself as non-UK resident and this involves meeting the criteria of the UK's statutory residence test (SRT). Introduced in April 2013 this test is relevant to all personal taxes; income tax, capital gains tax (CGT) and inheritance tax (IHT).

For income tax purposes, if you are not resident in the UK then you should not normally have to pay tax on the income which arises outside of the UK. It is where the income arises which is the important factor. If you leave the UK to take up permanent employment abroad for an overseas company, with the duties performed abroad and the salary paid abroad then it is fairly easy to pass the SRT. However, income arising in the UK whilst living abroad e.g. from letting your UK property will remain taxable in the UK.

In the tax year when you leave the UK you will receive your full personal tax allowance. All of your income which is chargeable to UK tax is liable in the year of departure from the UK – this would include State Pensions and any untaxed interest. As a UK resident, up until departure, any overseas income to departure date would also be chargeable to UK tax.

Even if you are not resident in the UK you retain your right to a UK personal tax allowance if you remain a citizen of the European Economic Area (EEA). If the income arising in the UK is less than that allowance then it is possible to have this income paid to you without deduction of UK tax, however you may have to complete a self-assessment tax return.

There are also tax implications for the assets you own in the UK. As mentioned, any income from letting your property whilst living abroad is taxable but if you decide to sell your property (or any other asset with a potential capital gain) then it is vital that the sale completes after you have departed, to prevent CGT becoming payable. Even if you complete your sale whilst living abroad, CGT may become payable if you return to the UK before 5 full tax years have passed. If your return is poorly timed the taxable gain will come back into charge in the first taxable period back in the UK.

If you live abroad and you inherit assets (money, property or shares) in the UK then any IHT liability is paid out of the estate before it is passed to the beneficiaries and so it should not impact on the assets you inherit. However the timing of gifts you make is vital so please speak to us before making any gifts.

Top Tip:

When you leave to live abroad you should also consider what the tax position is in the country you will be living in. The UK has agreements with many countries called Double Taxation Agreements, which in essence are there to prevent income and gains being taxed twice – once in the country where you live and once in the country where the income arises. Specialist planning will be needed to make your move abroad plain sailing so please speak to your client manager early in the process.

Disclaimer: This pay less tax report is provided for clients of accountants and has been written for general interest. No responsibility for loss occasioned to any person acting or refraining from action as a result of the information outlined in this edition is accepted by the authors, AVN, or any associated business. In all cases appropriate advice should be sought before making a decision. The content is correct as at 3rd February 2015

Inheritance Tax PET?

With careful planning many find that it is possible to minimise the Inheritance Tax (IHT) which is payable by their estate, allowing much more of their hard earned legacy to pass to their loved ones and less to the tax man!

Any lifetime gifts made to an individual are exempt from IHT provided the person making the gift (the donor) survives for 7 years from the date of the gift. At any time during those 7 years the gift is called a Potentially Exempt Transfer (PET).

Example
Paul has 2 children, Liz and Ian, and in 2008 he made gifts of £250,000 to each of them. These were PETs.

Provided Paul survives until 2015, these PETs will fall out of his estate and there will be a saving for the estate of up to £200,000 (40% of £500,000) of IHT.

If the donor survives for fewer than 7 years then the gift falls back into the estate to be tax under the IHT rules.

Every individual has a limit on the value of their estate which is taxed at 0% called the Nil Rate Band (NRB) and for 2014/15 and 2015/16 this is £325,000. So if an estate is valued at the NRB limit or less no IHT is payable. In addition to this an individual has an annual exemption from IHT for gifts of up to £3,000. If this is not used in one year it can be carried forward to the next, so when calculating the amount of gift falling back into the estate any unused annual exemptions are set off. If the annual exemption is not utilised in the current or next tax year it is lost.

Example
Ian likes to be cautious with his money and has made no gifts in his lifetime until he gives £200,000 to his niece Jenny in March 2010 (tax year 2009/10). He then makes a further gift of £150,000 to his nephew Toby in March 2011 (tax year 2010/11). Ian dies in 2014, over three years after making the gift to Toby. The gifts in 2009/10 and 2010/11 were potentially exempt gifts (PETs).

Following Ian's death, the gifts – being within 7 years of death – fall into the IHT calculation.

The gift to Jenny of £200,000 in 2009/10 uses up part of the NRB and so no tax is payable on this. The amount used up is £200,000 less £6,000, which is made up of Ian's annual exemptions for the year of the gift (2009/10) and the previous tax year (2008/09) making a total used of £194,000.

With £194,000 of the NRB of £325,000 already used up by the gift to Jenny, only £131,000 is left available for the gift to Toby in 2010/11 of £150,000.

Ian did not use the annual exemption for 2010/11 of £3,000 but the exemption for the previous year (2009/10) was used to reduce the gift to Jenny so only 1 year's exemption is available to set off against Toby's gift resulting in a chargeable gift of £147,000 (£150,000 less £3,000). But with only £131,000 of the NRB remaining, inevitably some tax will be payable on the difference of £16,000.

The rate of IHT is 40% but for gifts made three or more years before death a relief is available which reduces, on a sliding scale, the rate of IHT chargeable. This is called Taper Relief. For gifts made 3-4 years prior to death the reduction is 20%, 4-5 years is 40%, 5-6 years is 60% and 6-7 years the reduction is 80%.

In the previous example
Ian lived for between 3 and 4 years after the gift so the taper rate is 20% meaning the tax rate which applies to the gift will be only 80% of the normal 40% rate which is 32%.

On the gift made to Toby the amount chargeable to tax was £16,000 and that would be charged at 32% making IHT payable of £5,120.

It is important to keep a record of all gifts made to ensure no gifts over 7 years fall back into the estate and to maximise the taper relief rate on those gifts falling in the 3 to 7 year window.

If, after calculating the balance of the estate including gifts made from 3 to 7 years, the estate is still below £325,000 then the rate of tax payable is set at 0% meaning no tax would be payable.

Incorporation – remains beneficial

The autumn statement of December 2014 made changes to the tax benefits of incorporating a sole trader business or a partnership. Whilst the tax benefits of actual incorporation may have been reduced, benefits still remain and the overall annual benefit of trading as a limited company rather than a sole trader or partnership still remain.

When a business owner incorporates they effectively sell the value of their business reputation and their business customer relations (the goodwill) to a limited company and as such they dispose of a business asset. Until December 2014 the value of the goodwill disposed of to the limited company attracted Entrepreneurs Relief (ER) which meant that this value was essentially taxed at a reduced rate.

There was an additional benefit for the limited company acquiring the goodwill. The company could claim a tax relief for the amount paid for this business asset divided over a number of years (known as amortisation).

Neither of these reliefs can be claimed on disposals of goodwill to a limited company after 3rd December 2014 however any goodwill which was sold for cash on incorporation prior to that date can continue to be claimed as a tax relief (amortised) against the company's profits for the future until the whole amount has been set off.

It may sound like all of the benefits of incorporation have been lost but that is not the case. There are still financial and operational benefits to be had and the changes do not necessarily mean that there will be tax to pay on a potential incorporation of business you may be considering. If the business has a low goodwill value then there is potential to utilise your personal annual Capital Gains Tax (CGT) exemption or, you may use a CGT relief which remains available called Incorporation Relief. Subject to the relevant conditions being met there will be no CGT charge on the incorporation of a business.

Entrepreneurs' Relief

Entrepreneurs' Relief (ER) is a relief for those business owners who dispose of business assets.

ER may be due if you dispose of any of the following:

- all or part of your business as a sole trader or business partner - including the business's assets after it closed
- shares in a company where you have at least 5% of shares and voting rights (known as a 'personal company')
- assets you lent to your business or personal company

Capital Gains Tax (CGT) is payable on the gain made when disposing of an asset and the standard rate is 18% which increases to 28% for higher rate tax payers. But, if the strict criteria is meet for the assets to be classed as qualifying assets, then a reduced rate of 10% will apply.

That's great news for anyone wanting to sell business assets and any number of business assets can be sold during an individual's lifetime, but the total amount of gains on which that individual can claim relief has a lifetime restriction of £10 million.

For Entrepreneurs' Relief to apply the business has to be a trade, profession or vocation. Property letting is not classed as a trade and would not attract ER.

To ensure your business, its assets or shares qualify for this relief it is important to discuss the potential sale in advance as no action can be taken after the sale to secure the 10% rate. Claims for relief must be made within strict time limits and your client manager is the first port of call with any questions regarding the potential sale of any business asset, building a business for sale or your own exit planning strategy.