HOLLIS AND CO

HOLLIS NEWS

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What's the best way to hold let properties?

Consider the future before you buy

You can hold the property in you own name, or if you are married or in a civil partnership, it can help save capital gains tax or inheritance tax, if the property is held jointly. A joint ownership will spread the income from the property between you, using up both basic rate tax bands and any spare personal allowance. Married couples normally must share the rents equally from a jointly held property, but this rule does not apply to property held jointly with others, such as adult children. Buying with your adult children can help to spread the income from the property around the family, but it is wise to have a written agreement that states who is entitled to what share of the net income.

Alternatively you can use a company to buy the property, but this is generally only worthwhile if you hold several buy-to-let properties. Using a company can generate a tax saving, as it will generally pay tax at 20% on income in 2007/08, while your top rate may be 40%. However the small company tax rate will increase to 21% from 1 April 2008, while the basic rate of income tax is due to drop to 20% in the same month. This will eliminate the tax saving for basic rate taxpayers. If you control a number of other companies the tax rate paid by your property company could be the large company rate of 30% rather than 20%.

The main disadvantage of holding let property within a company is the cash generated can generally only be extracted from the company with an extra tax charge. If you are happy to leave the cash within the company for further investment, or eventual sale of the whole company, this extra tax charge is irrelevant.

You need to look forward to consider the disposal of your properties before you decide how to hold them. When you sell a property personally you can set your annual capital gains exemption (currently £9,200) against the profits made. Also if you hold the property for at least three years taper relief will reduce the taxable gain. When a company disposes of a property it cannot claim taper relief and has no annual capital gains exemption, so it may be taxed on more profit that you would be. The company may also pay tax at a higher rate on the capital gain than you do.

To decide how you should hold your property we need to work out the numbers looking forward for several years. This will always be a gamble as we cannot be sure that tax rates will remain the same.

Is the cost of training tax deductible?

If you pay for training courses or exams for your employees your can deduct the costs from your profits. However, where an employee pays for the training directly he or she cannot claim a tax deduction, unless the course was actually carried out as part of their job, not to prepare them to do the job. If your employee needs to train in a different area, make that training a condition of the employment contract and reimburse the cost to them on submission of an expense claim. If the cost of the course is significant you could agree with the employee to reduce their salary to compensate.

Training costs for the self-employed are not automatically tax deductible. If the training tops up an existing skill, the cost can be deducted from the business profits. However if the training is to develop completely new skills, the Revenue do not allow the costs to be deducted for tax purposes.

TAX DEADLINES

1 July
Smoking ban in workplaces comes into effect
5 July
Final day to reach PAYE settlement agreement for 2006/07.
6 July
Last day to file forms P11D/P9D for 2006/07 with HMRC and issue copies to employees. Also report shares, or share options awarded to employees in 2006/07.
19 July
Cheques for PAYE/NIC for periods to 5 July and class 1A NICs for 2006/07 must reach HMRC.
21 July
Electronic payments of PAYE/ NIC must reach HMRC.
30 July
Company accounts to **30 Sept 2006** must reach Companies House.
31 July
Pay second on-account tax instalment for 2006/07. Outstanding tax for 2005/06 attracts 5% surcharge. £100 fine for all outstanding 2005/06 tax returns. Must return renewal claims for Tax Credits.
2 August
Submit form P46(car) to report new or changed company cars in quarter to 5 July.
17 August
Cheques for PAYE/NICs for month to 5 August must reach HMRC
22 August
Electronic payments of PAYE/ NIC must reach HMRC.
19 September
Cheques for PAYE/NICs for month to 5 Sept 2007must reach HMRC
22 September
Electronic payments of PAYE/ NIC must reach HMRC.
30 September
Submit 2006/07 paper tax return for tax due of up to £2,000 to be included 2008/09 PAYE code.

Tax Tip

It can now take several months to get your business VAT registered, so if your sales are creeping up towards the compulsory registration threshold of £64,000, please let us know ASAP. The VAT office also require a number of documents to support the registration application, which can delay the process if these are not provided.

Thinking ahead to IHT

Increased property values add to IHT worries

The price of the average house is apparently rising by £50 per day, that's £18,250 per year! This compares with the £15,000 increase in the inheritance tax (IHT) nil rate band from 2006 to 2007, which now stands at £300,000.

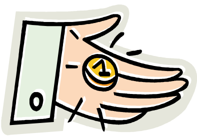
When you die everything you own, including your house, is valued and added to the value of any significant gifts you have made in the previous seven years. Deductions are made for funeral costs, debts such as mortgages secured on your property, and for gifts made to your spouse, charities or political parties and certain other organisations. If the net amount exceeds £300,000 (at current rates), the excess is taxed charged to IHT at 40%.

One way to ease the pain of the IHT charge is to split all of your investments equally between yourself and your spouse, including the ownership of your main home. This way you can both gift the first £300,000 of your assets to the next generation, or a trust, to take full advantage of the nil rate of IHT. The split in ownership of your main home will only work if it is held as 'tenants in common' rather than the more frequently used method of holding property called 'joint tenants'. However, the change to 'tenants in common' can be made quite easily with the help of a solicitor.

Another way to beat the IHT charge is to hold investments that qualify for *business property relief* so 100% of their value is excluded from the total subject to IHT. Shares in unquoted trading companies qualify for 100% business property relief once they have been held for at least two years. 'Unquoted' means the shares are not traded on the London Stock Exchange, but a listing on a junior market such as AIM, ETHEX, PLUS or ShareMark does not make the shares 'quoted'. It is thus possible to invest in some quite large and successful companies, which are only listed on junior stock markets, and protect your investment from IHT.

Any major change in your investments should only be undertaken with independent advice, and as part of a full IHT plan, so please talk to us first.

Can my company lend me the money?



Borrow only small amounts or pay tax charges

If you want to borrow some funds temporarily from your own company, there is not much in practice that will prevent you from doing this.

However, company law currently prohibits a company of any size from making loans to its directors, unless those funds are needed by the director to pay expenses incurred on behalf of the company, or to allow him to perform his duties as a director. The loan must also be approved by the shareholders in a general meeting and be repaid within six months of that meeting. These conditions don't apply where the amount of the loan does not exceed £5,000.

So you can borrow up to £5,000, but you also need to think about the tax consequences: If you do not repay the loan within nine months of the company's year end, the company will have to pay an extra corporation tax charge equivalent to 25% of the loan. That charge will be set-off against the next corporation tax payment due after you finally repay the loan.

When you borrow more than £5,000 there will also be a benefit in kind tax charge due from you personally. This applies unless you pay interest on the loan at least 6.25%. This tax charge will be levied where you borrow more than £5000 for any period: 5 months or 5 years.

Buy now or wait until April 2008

Balance the cost now with full tax relief next year

When you buy a piece of equipment to use in your business you cannot set the full cost against that year's profits, unless the value of the item is quite small in value. The cost of the equipment is set against taxable profits if it qualifies for a capital allowance. Businesses that have sales of up to about £5.6 million, and assets of up to £2.8 million, can claim a 50% capital allowance for the cost of most items of equipment purchased before April 2008. The balance of the cost of the equipment is set against the profits made in the next eight to ten years.

From April 2008 all businesses, of any size, will be permitted to deduct the full cost of equipment purchased in one year, if the total value is not more than £50,000. This allowance should cover most items of equipment you purchase, although it will not include cars or energy efficient items. If you spend more than £50,000 in one year you will have choice of claiming the first £50,000 against profits in one year, or claiming tax relief for 20% of all the expenditure, with the balance available to claim in future years.

So if you are currently planning to spend a significant amount on equipment, you need to consider whether it is better to get a 50% allowance now or potentially a 100% allowance if you delay the purchase to April 2008. We can help you work this out, so please discuss your plans with us first.