

CHARTERED ACCOUNTANTS

TAX DEADLINES

19 March
PAYE & NIC due for month to 5 March must reach HMRC.

21 March
Budget Day.

22 March
Electronic payments for PAYE must reach HMRC's account.

31 March
Submit CTSA return for year to 31 March 2006. File accounts at Companies House for companies with year ends 31 May 2006.

1 April
Turnover threshold for leaving VAT cash accounting scheme increases to £1.6 million.

5 April
Last day to: create capital loss in 2006/07, realise capital gains within £8,800 exemption, pay into an ISA for 2006/07.

6 April
New PAYE codes for 2007/08 must be used. IHT nil rate band threshold increases to £300,000

19 April
Cheques for PAYE & NIC due for: 2006/07 IR35 deemed salary; month to 5 April; and 4th quarter 2006/07 must reach HMRC.

20 April
Electronic payments for PAYE must reach HMRC's account.

2 May
Forms P46(car) for changes in quarter to 5 April 2007 to reach HMRC.

18 May
Use new tax tables from today.

19 May
PAYE & NIC due for month to 5 May. PAYE forms P14 and P35 for 2006/07 must be submitted.

22 May
Electronic payments for PAYE must reach HMRC's account.

31 May
Give completed form P60 to everyone you employed at 5 April 2007.

35 Wilkinson Street
Sheffield S10 2GB

Tel 0114 281 6166
Fax 0114 281 6160

Web www.hollisco.co.uk
Email enquiries@hollisco.co.uk

Deductions for use of your home

As a self-employed person you may use your car or van for private journeys and well for business trips. The Revenue guidance has always been to apportion the total costs of the vehicle, based on the business to total miles driven, so the amount included in your accounts relates only to the business use. However until recently there has been no guidance on how to apportion the costs associated with your home when you use that property partially for your business.



Calculate the area you work from

New Revenue guidance was released in the middle of January. It suggests that if you use your home for business purposes you need to consider these questions:

1. What area is used compare to the total area of the property ?
2. How long is it used for and is the area used for anything else?
3. What costs and services are consumed and are they metered?

For the first question a precise answer requires calculating the area of the room you use and the area of the whole house. This could involve a lot of fiddly measurements, so an answer of say 1/8th when you use one room out of eight, would be equally acceptable.

Next work out the number of hours out of 24 the room is actually used for business purposes. Where the amount of equipment and paperwork involved means the room cannot be used for any other activity, then the room is used entirely for business. However if this is the case we need to check that the capital gains exemption on the whole house is not adversely affected.

For question 3 add up the fixed costs associated with the property such as mortgage interest, insurance, repairs and maintenance. Apportioned these costs according the answers from questions 1 and 2. Say one room out of eight is used for 8 hours each day and the total fixed costs are £4,000. The business proportion of the fixed costs would be: $1/8 \times 8/24 \times £4,000 = £166.66$

The cost of metered services can be apportioned according to area and usage, remembering that little light and heat is used while you are asleep. Telephone bills, including the line rental, can be apportioned according to the cost of business calls made, and a similar reasonable apportionment can be made for broadband connections. When done, the total business cost must be reasonable for the use made of the property, so stand back and consider the result. If the costs are very small you can use the flat rate instead, see **Tax Tip**.

Tax Tip

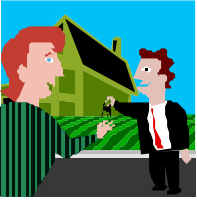
If you use your home for a few hours a week say to record your expenses and takings, the Revenue now allow you to claim a flat rate of £2 per week as costs. This is the same amount an employee can claim from their employer for working at home, without producing evidence of higher expenses.

Tax Year End Planning

Take a look at our Hollis and Co website for guidance on planning for a year's prosperity: http://www.hollisco.co.uk/content/padvisor_planning/yearplan.html. This includes some useful tips for tax year end planning for sole traders, partnerships and companies. The website also contains lots of tax planning ideas for individuals. For instance some thoughts about how you should approach inheritance tax planning can be found here: http://www.hollisco.co.uk/content/padvisor_planning/estplan.html. All the content on our website is constantly updated by experts, so do visit it regularly.

This news letter is written for general interest only . Hollis and Co do not accept any liability for any reliance placed on its content. Please contact us for further specific advice before acting.

Tax reliefs for letting go



Plan before sale

When you sell a property purchased to let out, you may dread the large tax bill that will arise on the gain, but there are legitimate ways of reducing the capital gains tax you pay.

If you have owned the property for at least three years, taper relief will reduce the gain by 5% for the third and subsequent years of ownership, until 40% of the gain is relieved. When the property has been let to a business and used in its trade, this relief may be increased.

Where the property was purchased before 17 March 1998 the original cost will be increased by an indexation allowance, which gives relief for the change in the RPI from the date of purchase, or March 1982 if earlier, to March 1998. When calculating the total original cost of the property, include the legal fees and stamp duty you paid on the purchase. If you have made any alterations, rather than repairs, the cost of those alterations should also be deducted from the sales proceeds.

Married couples or those in registered civil partnerships, can transfer a share of the property between themselves with no tax charges. So if the property is held in your sole name, you could transfer it into your joint names before the sale. This will allow you to both set your annual capital gains allowance (£8,800 for 2006/07), against the gain, which reduces the taxable amount by up to £17,600. Such a transfer must be completed by a legal deed well before the property is put on the market.

After your last tenants leave you could to move in yourself, perhaps while improvements are made to your own home. You must tell HMRC that you are treating your former rented property as your main home until further notice. When your first home is fully renovated you can move back and inform HMRC that this property is once again your main home for capital gains tax purposes. The short time you spent living in the rented property means the gain due to the last three years of ownership will be free of capital gains tax.

How to use your IHT gift allowance

Making regular tax free gifts is one of the best ways to avoid paying inheritance tax (IHT) as you pass on your wealth to your family and others. All the gifts you make to individuals will be free of IHT if you live for seven years after the day you made the gift. However there are allowances that you can use to ensure your gifts will be free of IHT irrespective of what happens afterwards.

Every tax year you can give up to £3,000 free of IHT, either to one person or split between several individuals. If you did not use all this allowance in the tax year to 5 April 2006 you can roll forward the unused amount and set it against gifts made up to 5 April 2007. However the roll forward stops at one year, so the 2005/06 allowance cannot to be set against gifts made in 2007/08.

When there is a wedding in the family you can give an additional IHT free amount of up to £1,000 to the bride or groom. If you are a grandparent or parent to one them, your tax free gift may be increased to £2,500 or £5,000.

These gifts are all capital gifts, which mean they reduce the level of your savings. If you have enough spare income to cover regular gifts, those amounts will also be free of IHT. You need to set up a pattern of giving, such as regular premiums to a life policy or just a standing order to the individual, and check that your income is sufficient to cover the regular gifts as well as leaving you enough to pay your own living expenses. We can help you work this out, so come and talk to us.

Essential preparations for the New CIS

If you are a contractor in the construction industry and you are not prepared for the monthly returns due under the New CIS from May 2007 you could soon find yourself subject to some heavy penalties. You must complete this return every tax month even if no sub-contractors have been paid during that month.

The monthly return reports all the payments made to subcontractors in the month and asks you to confirm that you have 'verified' (see below) all the subcontractors, and that each subcontractor has been correctly treated by you as self-employed. HMRC will fill in the details of all the subcontractors you have used in the previous three months, plus those who you have verified in the last month, which will make it a bit easier to complete.

'Verified' means you have checked with HMRC that the worker is registered for the New CIS, and if he should receive payments gross or net of tax. You can verify a subcontractor by phoning

HMRC, or by using the Internet, or by post. Once you have verified a subcontractor you will not have to repeat this check for the next two tax years. If you have paid a CIS registered subcontractor in the last two years you will not have to verify him before you pay him under New CIS. HMRC are preparing a list of subcontractors they think you have paid in the last two years, and will send you this list very shortly.

You can submit the monthly return on paper or over the Internet, but HMRC is encouraging contractors to use the Internet, as that should be quicker. Speed will be important as the submission deadline for the return is 19th of the month (*two weeks from the end of the tax month*), and there will be fines for late returns. If you are persistently late with submitting your monthly returns, or paying over PAYE and CIS tax deductions, your gross-payment status as a subcontractor may be removed. Ask us to help.