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### editorial



The Chancellor's pre-Budget report this year was made against a backdrop of great economic uncertainty. As the economy heads into full-blown recession, it

remains to be seen if the reforms announced by Alistair Darling will stimulate the economy sufficiently. The government's financial package will initially be funded through increased debt; a move rightly regarded as political because the tax changes proposed to pay off the debts will not take effect until after the next election.

Many of the tax changes highlighted in our article overleaf are complex, particularly the withdrawal of the personal allowance from those earning over £100,000. This is regrettable as it just adds more layers of confusion to our already complex tax system.

Pressures on businesses will grow over the next year so the news that National Insurance will rise across the board from April 2011 will be a spectre haunting the prospects of future recovery.

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### in pursuit of happiness - bikes, children's holiday camps and MBA courses

What do these have in common? You may be able to have them all tax free if you can persuade your employer to offer salary sacrifice schemes.

A salary sacrifice scheme involves an employee giving up the right to a part of his/her salary under an agreement which varies the terms of the employment contract for a specified period of time; in return for which his/her employer provides tax free benefits such as:

- the provision of a bike and safety equipment used mainly for commuting to work or business travel, limit generally £1,000;
- work related training, £ unlimited;
- provision of childcare vouchers up to £55 per week (per working parent);
- workplace parking, £ unlimited.

**Example** Your MBA course costs £15,000 and you are a higher rate taxpayer.

**Option 1** Pay for it out of taxed income of £25,423, add employer's NIC of £3,254. **Total cost £28,677.**

**Option 2** Your employer pays course fees of £15,000 and you sacrifice £417 per month for three years at a total cost of £15,000. **Total savings £13,677.** The costs of setting schemes up are typically shared between employer and employee but are usually minimal.

It is important to ensure that any scheme meets all the relevant HMRC requirements and is set up effectively.

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# topical updates



## coding notices

**If you are an employee you may recently have received a new notice of coding. There has been a mass issue of new codes by HM Revenue & Customs which include as much income as possible. By doing this**

**they collect the tax due on this income monthly rather than waiting until 31 January.**

You should therefore check your new code to ensure this has not happened. If it has, contact your engagement partner who will ask your district for the other income to be removed.

## tax rates

Having very publicly abolished (well almost, it still applies if you have only investment income of less than £2,320 taxable) the 10% rate of tax and feeling unable to backtrack, the Government increased the personal allowance of £600 to £6,035 to ensure no one was worse off by the abolition.

There was a cut in the higher rate threshold of £1,200 to £34,800 to ensure that higher rate taxpayers did not benefit.

The cost of the adjustment is much greater than the original abolition of the 10% band and there are still lower paid people worse off.

## every cloud.....

Now the credit crunch has worsened and looks to be with us for some time there are some silver linings.

House prices have generally decreased which is good if you are entering the market, although not so good if you have somewhere to sell.

If you sell capital assets at a loss these losses can be stored up and carried forward for use in the better times when gains are again being made.

Losses on shares in unquoted trading companies which you subscribed for can be off-set against income in the current year.

## charitable giving

Gifts of assets to charities will be deemed to be at a value that gives rise to neither a gain nor a loss. If the gift is of cash, quoted shares or securities, shares in an authorised Unit Trust or land then generally the gift will also qualify for income tax relief for the donor.

## stamp duty land tax (SDLT)

From 3 September 2008, for a year, there is a temporary "holiday" from SDLT for acquisitions of residential property worth not more than £175,000.

The relief is available for the acquisition of major interests in land other than the grant or assignment of leases with less than 21 years to run.

## year end tax planning

*As part of your year end tax planning strategy you should consider the following:*

### pensions

The rules allow contributions of the lower of your earned income or £235,000 to be paid in the current year.

### enterprise investment scheme (EIS)

Given the new rules on Capital Gains Tax (CGT), the EIS can be a very attractive scheme for deferring CGT and saving Inheritance Tax (IHT). If you have realised capital gains in the last three years or intend to in the next year, investment in an EIS can defer the CGT liability. On an investment of up to £500,000 it is also possible to pick up 20% Income Tax relief. Once the EIS has been held for two years it also qualifies for Business Property Relief meaning a total exemption from IHT.

If you have capital gains in the last 3 years those gains could be deferred by use of the EIS. If you have paid CGT at, say, 30% the returns could look like this, based on a gain of £10,000 deferred:

Gross investment	£10,000
Less income tax relief	£2,000
Less recovery of CGT paid	£3,000
Net investment	£5,000
Value after 3 years, say	£10,500
Less CGT at 18% on original gain rolled over	£1,800
<b>Net value</b>	<b>£8,700</b>

That is equivalent to a net return of 74% or over 20% per annum tax free.

EIS is generally a higher risk investment than VCT in that you are investing in one company only. However there are some EIS schemes where the trading risks are substantially reduced albeit with corresponding reductions in the prospective return from the trade. In the above example we assume use of a particular scheme where the risks are relatively low and projected return over 3 years is 5% net.

### venture capital trusts (VCT)

Investment in VCTs qualifies for 30% tax relief on up to £200,000. Investment must be made by 5 April 2009 to qualify

for relief this year. This is an attractive investment for a part of one's portfolio where one is looking for capital growth over a 5 year period. Risks are relatively high with this scheme since investment is in smaller companies but there are a number of schemes on offer with inventive strategies to reduce risk.

### PEPs and ISAs

The amount which can be invested tax free in ISAs is £7,200 for this year. This can be made up of a Cash ISA up to £3,600 and a Stocks and Shares ISA for £3,600, or simply a Stocks and Shares ISA for £7,200. By investing in these products regularly, it is possible to build substantial tax free portfolios.

### inheritance tax (IHT)

Do you have a current Will? A Will ensures your estate is distributed in the way you wish, through the use of the appropriate planning and helps you to maximise the amount of your estate that is passed on.

Making the correct investments (see the piece on EIS investments) can result in certain assets passing free of IHT. Other investments that qualify for Business Property Relief include AIM listed shares. These investments in the junior market carry a higher degree of risk but can be reduced by diversifying using a portfolio approach. There are professional managers offering such a service and some very good performances have been achieved.

The annual exemption of £3,000 can be carried forward for one tax year only. Thus, if you have not made use of this exemption for the last two years you could make a gift of up to £6,000 completely free from Inheritance Tax.

Gifts of £250 to individuals are also exempt. If the £3,000 annual exemption is used to fund a life policy with the benefit payable on the second death, significant tax free funds can be built up. Gifts made during your lifetime still qualify as PET's which will escape the IHT net should you survive seven years from the date of gift. Care must be taken to ensure that you retain sufficient income producing assets and capital to keep you in the manner in which you are accustomed.

### principal private residence (PPR) relief

You may be aware that your PPR is free of CGT on disposal. However, if you have a second property it will be subject to CGT on disposal. The making of the appropriate election should enable a substantial period of exemption to be obtained for that property as well. To achieve this you must, within two years of acquiring the second residence, elect for that to be your PPR for a short period. If you do obtain a second property please consult your engagement partner to decide whether such an election would be appropriate.

### capital allowances

Capital allowances are tax deduction claimed instead of depreciation on assets used in your business. The 100% first year relief on qualifying expenditure up to £50,000 incurred in the year to 5 April (31 March for companies) 2009 may be withdrawn after that date.

There is every possibility that the relief may be extended for another year but you may wish to invest this year to avoid the risk it is not.

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## protecting your pension fund



**When the "pensions simplification" rules were introduced on 5th April 2006 (A Day), a limit of £1.5m was introduced for pension funds qualifying for the full tax benefits. This limit has increased**

**each year and is now £1.65m.**

- If your pension fund exceeded £1.5m at A Day
- or your cash entitlement exceeded £375,000
- or if you think your pension fund might exceed the limit at some future date

It is recommended that you consider protecting your funds from the tax penalties that might apply.

This becomes even more important with the announcement in the pre-Budget report that the lifetime allowance limit will be frozen at £1.8m for 5 years from April 2010.

The deadline for applying for protection is 5th April 2009. If you think you might be affected and haven't applied for protection, please contact your usual engagement partner or Neil Sims of haysmacintyre financial planning.

*haysmacintyre financial planning is a trading name of Helm Godfrey Partners Limited which is authorised and regulated by the Financial Services Authority.*

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# pre-Budget report 2008



**The Chancellor's pre-Budget report will primarily be remembered for the 2.5% reduction in VAT, aimed at stimulating consumer spending and providing a boost to the economy. However as with all tax cuts, tax rises inevitably**

**follow. We highlight the changes announced by Alistair Darling which will take effect over the next few years.**

## personal tax

From April 2009 higher rate taxpayers will be approximately £340 better off per year as a result of the rate changes announced to income tax personal allowances and National Insurance. Basic rate taxpayers will benefit from a permanent extension of the personal allowance which was announced as a temporary measure following the abolition of the 10% tax band. However from April 2010 the Chancellor will use higher tax and NIC rates to fill the hole caused by increased short-term borrowing.

An innovative and unwelcome reform is the gradual withdrawal of the personal allowance for those earning over £100,000, commencing in April 2010. The new headline rate of 45% which applies to income over £150,000 commences in April 2011, along with an increase to the trust rate (up to 45%) and the dividend tax rate (up to 37.5%).

Working people and businesses will not appreciate the increase in National Insurance, with all rates increasing by 0.5% from April 2011. This includes the 1% rate above the upper earnings threshold, which is to be increased to 1.5%.

## trusts

In a move that will be seen as another attack on the use of trusts, the Chancellor announced that the trust rate of tax will increase to 45% from April 2011. We await the legislation to put this into effect, but the new rate appears to apply to all income, not merely above £150,000 as with individuals.

The new rate will apply to discretionary beneficiaries, with bare trusts and life interests/interests in possession seemingly unaffected.

The cash distribution to beneficiaries will be lower as a greater proportion is paid over in tax to HMRC. To make up the difference, beneficiaries who pay tax at less than 45% can reclaim it through their personal tax returns. This change will have a serious cash flow impact on all beneficiaries earning less than £150,000.

## sole trader loss relief

A small but welcome change to loss relief has been introduced for sole traders and partnerships for 2008/09. Where a trading loss arises, in the first instance it can be set off against other income in the same year or carried back against income or profits in the previous year. Alternatively it can be carried forward and set against future profits. In addition, for 2008/09 a loss of up to £50,000 can be carried back for up to 3 years, set against the most recent years first.

How beneficial this is will depend on the sole trader's other income in the previous years. It does provide an alternative to obtaining tax relief where profits may have been in the past but have recently suffered.

Although many of the increases announced by Alistair Darling are deferred for several years, tax planning in advance can mitigate the impact. Reviewing your assets to avoid the new 45% tax rates could achieve real savings. For more information please contact Anne Gregory-Jones, Nigel Landsman or your usual haysmacintyre contact.

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*"Although many of the increases announced by Alistair Darling are deferred for several years, tax planning in advance can mitigate the impact."*

# use of home as office



**Working practices change and many people are finding it more convenient to work from home. But what are the tax implications of using your home as an office?**

Employees working from home can be reimbursed by their employer for “reasonable additional household expenses” that are incurred in carrying out his employment duties at home. These payments from the employer will be exempt from income tax. The employee must regularly perform their duties at home with the prior agreement of the employer – the exemption does not apply where such homeworking is irregular or infrequent.

The payment must be in respect of the normal day to day household running costs. Up to £2 per week can be paid without needing to keep or provide evidence. Larger payments are allowed providing they can be justified within the rules set out above. For sole traders the costs involved in using your home as an office can be legitimately claimed as an expense in your trading accounts. As they work on the same principle, you can even make a claim if you run your property rental business from home.

Working from home covers a whole range of activities, from simply writing up your accounting records to holding business meetings and generally performing the tasks required of the job. The more work performed, the greater the proportion of expenses that can be claimed.

If you run your business through a company, the company can pay you rent for using your home for office space. Remember though that, although the company can claim the expense in its trading account, any rental income received must also be declared as income on your personal tax return.

It may be possible to claim expenses against this personal income, depending on the facts.

Calculating the proportion of household expenses has always been contentious. The amount that can be claimed will depend on how many hours are actually spent working from home. Short or infrequent use will result in only a small claim.

“One of the potential dangers of using your home as an office is the threat of losing its exemption status for capital gains tax.”

Business expenses can be a proportion of both the fixed and variable costs of running your home. The fixed costs include mortgage interest (but not the capital element), rent (if the property is rented rather than owned), council tax and household insurance. The variable costs will cover areas such as electricity, gas and telephone (both line rental and call charges). Other expenses can be deducted providing they can be justified as legitimate business expenses.

The cost of domestic repairs and redecoration can be deducted providing they relate to an area used for business purposes, such as an office space or study. The cost of redecorating the bedrooms or dining area is unlikely to qualify. It is important to remember that the normal rules for business expenditure still apply. If the only reason you use your home as an office is to entertain clients, then nothing can be claimed as business entertaining is not an allowable deduction.

One of the potential dangers of using your home as an office is the threat of losing its exemption status for capital gains tax (CGT). A property used exclusively as your main residence throughout your period of ownership will be exempt. However any part/room that is used solely for business purposes will not qualify because it is not exclusively residential. A small income tax benefit may have an unexpected CGT bill attached, so it is important to ensure that any business use is not exclusive.

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## guest article

### investing in uncertain times



**Long-term investing is a risky business, that's why your adviser begins any discussion about investments with a series of questions designed to assess your capacity and willingness to accept such risks. While longer-term**

**investing remains risky, it is more profitable than the short-term knee-jerk reactions that lead many investors to sell at low market prices, having bought at higher prices.**

The media's unvarying focus on the short-term swinging movements of the global stock markets, while singling out the short-term profiteering of bankers as the source of the current banking crisis, is an irony not lost on us.

When the House of Representatives originally voted down the Paulson Bail-Out Plan it was met with a 774-point drop in the Dow Jones Industrial Average. This, the media pointed out, was the largest single-day points drop in all of the Dow's 20,088 – day history. To the casual observer, and a great many professional observers too, this was surely symptomatic of catastrophe. But a points drop is just a points drop, and the fact that it was the largest single-day points drop is meaningless. On the day, the Dow fell just 7%.

To put this in perspective, on 19 October 1987 the Dow lost 20% in a single day, almost 3 times that of 28 September 2008.

Indeed there have been 10 separate occasions when the Dow has fallen more in a single day than it did on that Monday. The Paulson Plan was political dynamite, but its rejection in its initial short and rushed format was not an economic Armageddon.

What of the future for the stock markets? With a high degree of certainty we can say that they will recover in the long-term. That is good news for long-term investors. In the near-term we will see continued volatile swings both upwards and downwards in direction. We can say this with some certainty for two reasons. Firstly, there are always volatile swings in stockmarket values. Secondly, the government announcements which seek to offer some respite to the banks will have a beneficial impact, making a bank failure in the UK far less likely, but it is clear we are entering a period of recession, the length and depth of which is far from clear.

The stock market will recover well-ahead of the time that the economy recovers, but the timing is not just difficult, it is impossible to gauge. The most sensible course of action for investors is to remain diversified and focussed on the long term.

*haysmacintyre financial planning is a trading name of Helm Godfrey Partners Limited which is authorised and regulated by the Financial Services Authority.*

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haysmacintyre is registered to carry on audit work and regulated for a range of investment business by the Institute of Chartered Accountants in England and Wales.

A list of partners' names is available for inspection at Fairfax House, 15 Fulwood Place, London WC1V 6AY.

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## future events

### Schools' Conference

Our 2009 Schools' Conference will take place on the 4th February at Drapers Hall, London.

For further information, please contact: [iwatling@haysmacintyre.com](mailto:iwatling@haysmacintyre.com)



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