

DEADLINES *deadlines*

1 January

Corporation tax due for small companies with years ended 31 March 2004.

19 January

PAYE & NIC due for month to 5 January, and for 3rd quarter 2004/05.

31 January

Submit personal tax return for 2003/04, or receive automatic fine of £100. Final income tax and CGT due for 2003/04 year plus first payment on account of tax due for 2004/05.

2 February

Submit forms P46 (car) for quarter ended 5th January.

14 February

Defer payment of NIC for 2004/05 for those with two jobs.

19 February

PAYE & NIC due for month to 5 February.

28 February

Unpaid tax due for 2003/04 attracts automatic 5% surcharge.

19 March

PAYE & NIC due for month to 5 March.

31 March

Last day for small companies to claim 50% FYA on new assets, and to submit CTSA return for year end 31 March 2004.

5 April

Last day for unincorporated businesses to claim 50% FYA on new assets.

Tax Tip

There are only three months left in which small businesses can purchase plant or machinery that qualifies for a 50% capital allowance in the first year of ownership. The deadline is 31 March 2005 for companies, and 5 April 2005 for other businesses.

The right amount of spouse's wages

You are the main stay of your business but your spouse or partner is likely to provide a good deal of support, so it's only fair that he or she should be paid for that role, but at what rate?



First assess exactly what your partner does for the business. Is it Vital support from bookkeeping, telephone answering, marketing, or negotiating your other half contracts? Perhaps your partner maintains your website or database, or simply keeps your diary and provides other secretarial services. A freelance office assistant could perform all of these tasks, so it should be possible to obtain a quote for a relevant hourly rate. This freelance rate needs to be discounted by about 50% to take out the tax and risk elements.

The next step is to calculate the average number of hours spent per week or month on these tasks. This can be tricky, but even a rough diary note made at the time is good evidence should the Tax Inspector ever seek to challenge the amount paid. If your business is run through a company you should check that the amount you expect to pay to your spouse/ partner is at least £4.85 per hour, which is the legal minimum wage. Unincorporated businesses paying family members who live at home do not have to worry about the minimum wage.

Finally pay the amount due from the business bank account into your partner's own account, which ideally should be in his or her sole name. For the business to get a tax deduction the wage should be actually paid rather than just made as an accounting adjustment.

If the amount due is over £79 per week it should be recorded through a PAYE scheme so your spouse/ partner can receive free national insurance credits. No tax or national insurance is payable by the business until the weekly wage exceeds £91. The national insurance credits will allow your spouse/partner to build up an entitlement to the State Pension. As an employee your spouse will also be able to receive childcare vouchers from your business, which are tax free for the first £50 per week from April 2005. If you spouse/ partner has another job it may not be tax efficient to also pay them a wage from your business.

Pre Budget Report summary

In December the Chancellor gave his Autumn statement to Parliament which included measures to stamp out tax avoidance while giving extra money to families with children. The blocked loopholes were those used mainly by City banks to pay tax free bonuses. Until we see the new law it is impossible to know whether this sledgehammer will also hit small companies.

Families who use registered childcare will be able to claim up to £210 per week of those childcare costs as tax credits from April 2005, if the family income is within certain limits. The proportion of eligible childcare costs that can be claimed will rise from 70% to 80% from April 2006.

The tax free personal allowances for 2005/06 are as follows:

Aged under 65: £4,895, Aged 65-75*: £7,090, Aged over 75*: £7,220

*These allowances are restricted if total income exceeds £19,500.

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Two homes require planning

Life gets complicated when you live in two properties at the same time; there are two sets of bills to cope with and essential stuff is always at the wrong property, so you end up buying two of everything. But you may have forgotten about the important tax implications.

Your main home is free of capital gains tax on sale, but that exemption can only apply to one property. When you start to live in two properties, even if one is only a holiday home you need to tell the Revenue which is to be treated as your main home and will attract the exemption. The nominated main home does not have to be the property you actually spend the most time in, it is totally up to you. You have two years to make your choice, but once you have informed the Revenue you can change your mind at any time.

Once a property is nominated as your main home for tax purposes the gain attributable to the last three years of



Tell us when you acquire a second home

ownership will always be free of tax even if another property is the main home in that period. A let property that has been the main home at some point also attracts special tax relief. You can maximise the capital gains exemption by moving the nomination of your main home between properties.

The need to nominate your main home also applies if one of your properties is situated abroad, or if one home is leased rather than owned as a freehold. However, if you do not actually occupy the property because it is let as an investment you cannot nominate that property as your main home. Remember there is an initial two year deadline, so please tell us as soon as you take on a second home.

When can I put my property in my pension scheme?

A self-invested personal pension scheme (SIPP) allows you to have some control over the assets your pension is invested in. From 6 April 2006 the investment rules are changing so a SIPP will be able to hold residential property, antiques and even racehorses or boats.

Holding a let or second property in a SIPP may sound attractive as the income and gains generated by the property will be protected from tax. The property will also be outside your estate for inheritance tax. However there are some negative points to consider:

For your SIPP to buy a property it will have to raise sufficient funds to make the purchase. However from April 2006 it will only be able to borrow 50% of the total value already in the fund, so you may have to boost the SIPP funds with cash pension contributions first. Transferring a property you own into a SIPP does not qualify as a pension contribution.



Wrapping a property in a SIPP is permanent

If the SIPP acquires a property directly from you any gain you make will be subject to capital gains tax. Also once your let property is within the SIPP its value is stuck there until you retire and start to draw your pension benefits. Normally most of the funds in the SIPP will have to be used to buy an annuity before you reach the age of 75, but using a new style family SIPP it may be possible to side-step these rules.

If you want to use the property held by the SIPP you will have to pay either a market rent or suffer a tax charge based on that rent. So holding a holiday home in your SIPP may prove to be expensive.

Bunch of dividends can reduce tax

If your company makes less than £50,000 it pays very little corporation tax, or no tax at all if the profits are less than £10,000. The Chancellor thought small companies were exploiting these low tax rates, so he imposed a special 19% tax rate on all profits paid out as dividends to individuals after 31 March 2004. This applies even when the profits are below £10,000, so paying out a dividend when your profits are small can dramatically increase the company's tax bill.

Table A:

Year	Profits	Dividend	Tax
1	£10,000	£10,000	£1,900
2	£30,000	£10,000	£5,066
Total	£40,000	£20,000	£6,966

A way to reduce this hike in corporation tax is to plan the timing of dividends so the company only pays out in a year when the profits exceed £10,000.

Table A shows the tax due when the same dividend is paid every year. In table B the dividend due from year 1 has been delayed to year 2, saving tax of £1,583 (£6,966 - £5,383) over the two years.

Table B:

Year	Profits	Dividend	Tax
1	£10,000	Nil	nil
2	£30,000	£20,000	£5,383
Total	£40,000	£20,000	£5,383