

# Day Associates Newsletter

Accountants and Tax Advisers

November 2003

## DEADLINES *deadlines*

### 2 November

Submit forms P46 (car) for quarter ended 5th October 2003.

### 19 November

PAYE & NIC due for month to 5th November.

### 1 December

Stamp Duty Land Tax applies to most land transactions in the UK.

### 19 December

PAYE & NIC due for month to 5th December.

### 30 December

Submit personal tax return for 2002/03 by Internet for tax due of up to £2,000 to be included in the 2004/05 PAYE code.

### 31 December

Claim repayment of class 2 NIC for 2002/03 due to low earnings. Submit CTSA return for year end 31/12/2002.

## 2004

### 1 January

Corporation tax due for Small companies with year end 31st March 2003.

### 19 January

PAYE & NIC due for month to 5th January, and for 3<sup>d</sup> quarter 2003/04.

### 31 January

Submit personal tax return for 2002/03, or receive automatic fine of £100. Final income tax and CGT due for 2002/03 plus first payment on account for 2003/04.

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## Jointly held let property

Let property can generate a useful income stream for a spouse who has little or no other income to soak up the annual tax free income allowance, but you do need to arrange the property ownership correctly to gain the maximum tax advantage.

In England and Wales you can own property as joint tenants when you own an equal interest in the whole property, or as tenants in common where you own separate and identifiable shares say 10% and 90% of the property.

When a married couple own property as joint tenants any rental income must normally be split equally between them for tax purposes. If the property is held in unequal shares as tenants in common the couple can make a declaration on the Inland Revenue form 17 to have the rents taxed in the proportion that they hold the beneficial interest in the property. Without the form 17 declaration a married couple will be taxed on an equal share of the net rents from a jointly owned property.

If you want to split the rental income in unequal shares instruct your solicitor to acquire the property as tenants in common. Where you already own the property as joint tenants it is quite simple to change to tenants in common, but there can be a Stamp Duty charge where the property is mortgaged. A gift of a share in a property between husband and wife is not taxed, but when the property is sold the capital gain must be split according to the proportional ownership, so think ahead.

If you let a number of properties an alternative solution is to form a partnership or LLP to collect the rents and allocate the net income between you. However this does entail some additional costs. Come and talk to us about your options.



Declare your interest

**Inland Revenue booklet:**

**IR 150: Taxation of rents. A guide to property income**

Download form 17 at:

<http://www.inlandrevenue.gov.uk/pdfs/form17.pdf>

### Tax Tip

Even the smallest company can host a tax free party for its staff, including the directors and their partners. As long as the cost per head is less than £150, the employees are not taxed for having a good time and the company gets full tax relief for the expense.

### In brief:

We are pleased to introduce three new members of staff who have recently joined us. **Lorraine Atkinson, Linda Hardee** and **Tim Siggs** will enable us to increase further our bookkeeping, payroll and accountancy services to clients. Please let either John or Kim know if you want to talk about what we can offer you.

Our website is presently being updated to include more information and to be more interactive. If you have not already done so, please let us know your e-mail address so we can keep you informed about future developments.

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

## How much salary should I take?

When you run your own company you are free to decide how much to pay yourself as a salary. If you set your wage at between £77 and £89 per week you and the company pay no national insurance contributions (NIC), but you still get an NI credit that counts towards the State Pension and other social security benefits.

The rest of your income from the company can be taken as a dividend, which is not subject to NIC, and so provides savings for both you and the company. There are also other ways of extracting income which are not subject to an NI charge; such as interest on money you have lent to the company, or as rent on a property you own which is used by the company. It is important to get the paperwork right for these different types of income, but we can help you with that.

When you take a regular dividend from the company you need to take account of any fellow shareholders, because when a

dividend is declared it should be paid to all the shareholders who own the same class of shares.

If your company mainly provides your own personal services it may be subject to the tax rule known as IR35. This tax law increases the amount of tax and NIC payable on your income so it is important to be clear as to whether IR35 does apply to your company.

You can pay personal pension contributions of £2808 (net) a year whatever your income, but if you want to contribute more than this to a stakeholder or personal pension scheme, you need to draw a higher salary. However you should weigh up the pros and cons of paying more NIC and income tax in order to pay into a pension scheme compared to other ways of saving for your retirement. Call us to discuss your options.



A small salary may be best

## The Visit



You know the Employer Compliance people are coming because they wrote to warn you, but who are they, what do they want and what should you do in advance?

Employer Compliance is the new name for the Inland Revenue PAYE inspectors. They should inform us of their planned visit, but just in case they haven't please let us know. Then ring the number given on the Revenue's letter to arrange an exact date and time for the inspectors to call.

While you are on the phone ask for the names and full job titles of those officers who will be attending. This is not only a good security check but will give us an idea of the intensity of the inspection to be conducted. On the day of the visit check this prepared list against the proof of identity offered at the door.

## Put it in or keep it out?

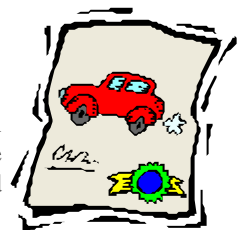
That's the question you need to ask about your car when you incorporate your business. As a sole trader or a partner all your motor expenses go through the business accounts and we disallowed a proportion of these costs in the tax calculation to reflect your private use of the vehicle. This gives you tax relief for most of your motoring costs and very little hassle.

When you run your business through a company all the motoring bills can pass through the business accounts if the company owns the car. However you will then be taxed on the benefit of having the car available for your personal use. This charge is based on the car's original list price and its CO<sub>2</sub> emissions, and is not adjusted even if you only use the car for a few private journeys. If the company also pays for all the fuel the tax due could be in excess of £4,000 per year, depending on the car.

Never let an official onto your premises without an ID check, whoever they say they are.

Brief your accounts and payroll staff because the Revenue officers may want to question them about procedures. Tell your people to answer any questions with care: do not answer a question that is not asked, or try to guess the answer, and never, never lie. If the staff member is uncertain or doesn't know he should refer the Revenue officer to a more appropriate person.

The officers will want to see your PAYE records, but also your cash book and evidence of payments that may relate to employees such as expense claims, sickness or absence records and details of staff entertaining. Make sure all these documents or computer records are in good order and easily accessible.



Who should own the car?

The alternative is to keep the car in your own name and pay all the garage and fuel bills out of your taxed income. The company can reimburse you for every business journey at 40p per mile for the first 10,000 miles and 25p per mile for the rest per tax year.

These payments may help off-set the running costs of the car but are unlikely to fully cover all your motoring expenses.

To work out the best option we need to compare the tax due with the car in the company and the net motor costs with the car in your own name. It will largely depend on your expected mileage but there is no quick substitute for a pen and paper on this one!