

## Hobsons : Newsletter August 2007

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This month's newsletter takes a look at the issue of passing on the family home; the tax treatment of computers and mobiles provided by an employer; the tax treatment of property owned and perhaps let abroad and changes to VAT car scale charges from 1 May 2007.

Readers may also have noticed the press coverage of the recent House of Lords judgement against the Revenue in the Arctic Systems case. We have included a short summary below.

The next newsletter will be published on 5 September 2007.

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### Smoking ban, only 20 per cent of firms offer help to quit

The Smoking ban in England came into force on July 1st 2007.

According to a recent survey by recruitment agency Manpower where more than 1.800 UK employers were surveyed , they found only 20% of employers were providing advice on how to quit smoking and 50% of those surveyed had no intention to introduce such initiatives.

For many employers, choosing not to support your smokers to quit the habit, may backfire.

Smoking is a form of addiction and many employers will not have anticipated the difficulties Smokers will experience when they are no longer able to eg smoke in the canteen, nip to the smoking room , or get their nicotine fix in the toilets!

Providing an area outside the Company site – preferably away from the public entrance is a useful short term solution. You will have to acknowledge that you will have some hardened smokers who can't or won't give up , and they will have to have somewhere to go. If you provide an area for them , you avoid your smokers selecting their own place which could well jepordise the look and feel of eg your entrance area . There is nothing worse than a carpet of cigarette butts by the front door conveniently left for your visitors to step over!

Long term, why not embark upon an initiative to get your staff to quit the habit? A healthy , fitter workforce is far more productive. Think of the amount of time – smokers take to have a “fag” break? – think of the related smoking illnesses that cause high rates of absence that could be reduced ?

There are a lot of organisations out there offering support – your local GP surgery will have advise and guidance and would be a good place to start. You could offer your facilities to hold local support groups, even offer monetary incentives to staff.

The possibilities are endless but by investing and promoting a healthier workforce – the long term gain will far outweigh the initial costs.

For further information the following websites may be useful:

[www.quit.org.uk](http://www.quit.org.uk)  
[www.bootscommittoquit.com](http://www.bootscommittoquit.com)  
[www.click2quit.co.uk](http://www.click2quit.co.uk)

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## **Arctic Systems - House of Lords find for the taxpayer**

The long awaited House of Lords decision in the case known as Arctic Systems has been announced and their Lordships decided by a unanimous decision to back Mr. & Mrs. Jones in their battle against HM Revenue & Customs. HMRC had tried to override the separate taxation of husband and wife by claiming the dividend income Mrs. Jones derived from the company on her 50% shareholding should be recharged to Mr. Jones. In simple terms the taxman asserted that as Mr. Jones effectively earned most of the profit for the company, it was unjust for half of this income to be allocated to Mrs Jones as a dividend. In legalise it represented a bounteous settlement from Mr. to Mrs. Jones. If the Revenue had been successful they would have assessed Mr. Jones, as if he had received his wife's dividend income.

Husband and wife companies that have a similar set-up to the Arctic Systems case are now safe from attack based on current legislation and case law. However it is likely that the Revenue will now legislate to change the relevant law - such a change if it occurs is unlikely to be retrospective.

We will keep a watching brief on this area of the law and advise you if future changes are forthcoming.

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## **Estate Planning, Inheritance Tax and the Family Home**

More and more people are falling into the inheritance tax net when their homes are passed to the next generation. Increases in tax allowances are consistently falling behind increasing house prices.

We have included some pointers below on how to maximise your estate planning to ensure that those who do inherit your property benefit from that bequest as fully as is possible.

### **Making a Will**

Make sure that you reduce your Inheritance tax liabilities by using all your available allowances, exemptions and reliefs — nil rate band allowance, business property relief, agricultural property relief and spouse exemptions. It is worth reviewing your will from time to time to ensure that it is still effective and has not been affected by recent changes in tax legislation.

### **Trusts**

Trusts can still be used to minimise your IHT liabilities (despite the recent assault on certain trust arrangements), for instance, Discretionary Trusts still provide a useful vehicle for sheltering assets from inheritance tax. However for legal and tax reasons care must be taken in the drafting of these and we would strongly suggest that you contact us before considering their use.

### **Leaving a share in your family home to your children**

Can be useful as long as you realise that children must live in the property to be exempt from the effects of capital gains tax - should the property be sold. Also their share of the house will be included in their own estate, with the potential to increase their own inheritance tax liability. Your children's personal circumstances should also be taken into account (they may themselves become bankrupt or divorced!)

This can be a complex area that deserves frequent review to maximise the effects of changing legislation. If we have not advised on estate planning for some time please call to discuss and make an appointment.

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## Tax Treatment of Computers and Mobiles

### Computers and Internet Access

As long as a computer is provided by an employer to an employee for work reasons, there should be no problem with tax, even if it is used privately in the evenings and at weekends.

However if a computer is provided as an outright gift for private use it would be taxable on the employee as a benefit in kind (unless it was provided before 6 April 2006 when it would be counted as tax exempt)

The same is true of any broadband service (or any internet connection) that is provided for work from home. There should be no tax consequences, even if this includes private use, provided the private use is insignificant. It must also be ensured that any contract and additional phone lines installed to carry the connection must be in the name of the employer, not the employee.

### Mobiles

Changes to the rules regarding mobile phones on 6 April 2006 had the following consequences:

Employers can provide telephones on which private calls can be made, but only one mobile per employee. To avoid complications the contract for the mobile phone and the air time contract would need to be in the name of the employer and not the employee.

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## UK Tax consequences of owning property overseas

If you live and pay tax in the UK you must declare rental income from overseas property lettings on the supplementary foreign pages of your tax return.

Things to bear in mind:

- How much tax you pay depends on whether you are resident in the UK for tax purposes. The rules regarding who is resident or not for tax purposes are beyond the scope of this newsletter article - if you need advice regarding tax residence issues you will need to make an appointment.
- If you are resident you must pay tax on any income from letting property you own abroad, whether or not you bring the income into the UK. (Unless you are resident but not ordinarily resident or domiciled here, when you can claim to be taxed only on the income remitted to the UK - the so-called Remittance Basis.)
- If you have already paid tax abroad you can usually claim credit against the UK tax you will have to pay or deduct the foreign tax from your overseas rental income when you work out the profit on which you will pay UK tax.
- If you own more than one property abroad then you can offset losses from one against profits from another but you cannot offset losses or gains from properties abroad against losses or gains made in the UK - these are taxed separately.
- If you dispose of your property you may have to pay foreign tax and you may also have to pay UK capital gains tax, although where this is due you can usually get credit for any non-UK tax you have paid on the same gain. If you are resident/ordinarily resident and domiciled then you will be liable to CGT whether or not you bring the gains into the UK. If you are resident/ordinarily resident but not domiciled you will only be liable for gains you remit to the UK.

As you can see owning and/or letting property abroad can be a real minefield. Planning is absolutely critical. If you are considering a purchase or need to regularise the tax position of existing overseas property holdings make sure you get our best advice on all aspects.

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## VAT Fuel Scale charges go green

### VAT:Fuel scale charge - new CO2 basis

We would like to remind clients that Revenue and Customs announced changes to the VAT fuel scale charge earlier this year. The changes came into effect on 1 May 2007 and businesses must use the new scales from the start of their first accounting period beginning on or after this date.

The previous VAT fuel scale charge, which was based on engine size and fuel type, has been replaced by a fuel scale charge based solely on the CO2 rating of a car. The new table, which mirrors that used for direct tax purposes, will have 21 bands with 5g/km increments.

Accordingly you must calculate car scale charges, for VAT Returns beginning on or after 1 May 2007 by reference to the new CO2 charges.

If you would like our help applying the new rules to your first affected VAT return please give us a call.

### Company Cars - Advisory Fuel Rates for company cars

The Revenue have also revised the approved mileage rates if you need to make a claim for the fuel cost of your business motoring. The rates which apply from 1 August 2007 are:(The rates quoted are pence per mile)

**Petrol** - 1400cc or less 10p, 1401cc to 2000cc 13p, over 2000cc 18p.

**Diesel** - 1400 cc or less 10p, 1401cc to 2000cc 10p, over 2000cc 13p.

**LPG** - 1400cc or less 6p, 1401cc to 2000cc 8p, over 2000cc 10p.

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## Tax Diary August/September 2007

**1 August 2007** - Due date for corporation tax due for the year ended 31 October 2006.

**19 August 2007** - PAYE and NIC deductions due for month ended 5 August 2007. (If you pay your tax electronically the due date is 22 August 2007)

**19 August 2007** - Filing deadline for the CIS300 monthly return for the month ended 5 August 2007.

**19 August 2007** - CIS tax deducted for the month ended 5 August 2007 is payable by today.

**1 September 2007** - Due date for corporation tax due for the year ended 30 November 2006.

**19 September 2007** - PAYE and NIC deductions due for month ending 5 September 2007. (If you pay your tax electronically the due date is 22 September 2007)

**19 September 2007** - Filing deadline for the CIS300 monthly return for the month ending 5 September 2007.

**19 September 2007** - CIS tax deducted for the month ending 5 September 2007 is payable by today.

**DISCLAIMER - PLEASE NOTE:** The ideas shared with you in this newsletter are intended to inform rather than advise. Taxpayers circumstances do vary and if you feel that tax strategies we have outlined may be beneficial it is important that you contact us before implementation. If you do or do not take action as a result of reading this newsletter, before receiving our written endorsement, we will accept no responsibility for any financial loss incurred.

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