

## Hobsons : Newsletter November 2008

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The financial press continues to be dominated by the threat of recession and the fall out from the banking crisis. This is potentially of concern to all of us. Accordingly the newsletter this month takes a look at a number of tax issues that could become more relevant if the economic downturn continues.

Firstly an article on the tax fall out from letting all or part of your own home, the entrance qualifications for tax credits, an outline of tax-free bike schemes and finally a VAT pointer if you are considering the purchase of a business.

Our next newsletter will be published on the 3rd December 2008.

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### Letting your own home

It has been some time since we were given tax breaks for owning our own homes - remember MIRAS? (Mortgage interest relief at source - tax relief at basic rate, up to certain limits, was deducted from the mortgage interest we paid).

As a consequence we have to fund both interest and capital repayments out of our taxed income.

For instance you would need to earn over £1,000 per month as a 20% tax payer, or more than £1,300 per month as a higher rate tax payer, to pay £800 per month of mortgage interest.

As recession starts to bite and taking into account the difficult property market, we may consider letting either part or all of our homes. This article sets out a number of the tax considerations you will need to consider.

#### Rent-a-room relief

At present you can elect to claim this relief if you let out a room in your home. The following rules should be considered.

1. If you don't make such an election you will be taxed on the difference between the rents you charge and directly attributable costs (such as a proportion of gas, electricity, water and general rates, repairs and of course mortgage interest).
2. If you do make such an election you will be taxed on the difference between the total rents you receive and £4,250. Expenses are ignored.

(If your property is owned jointly the £4,250 will be shared between the partners, as will the rents.)

In most cases it will be necessary to work out the tax charge using both methods to see which is more beneficial.

If the rents received from letting a room are less than £4,250 per annum (£354.17 per month) the income is entirely tax free!

#### Letting your home

If you decide to move from your home and let the whole property the following points should be considered.

- You will be taxed on the rents received less attributable costs. Costs will include mortgage interest paid.
- As the property has been your principal private residence any gain that you make on subsequently selling the property will be tax free until you move out plus the last three

years of ownership. Consequently if you do not let for more than three years there will be no capital gains tax to pay.

- If part of the gain becomes taxable because of the property being let as residential accommodation, then you can also make a claim for lettings relief of up to £40,000. The relief is available to both owners if property is jointly owned including married couples or civil partners.

You should also be mindful in both these situations that letting or part letting of the property may be prohibited by your mortgage lender.

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## Tax credits - when do you qualify?

You may be eligible for tax credits if you fit into the following criteria:

- If you are responsible for at least one child or young person who normally lives with you, you may qualify for Child Tax Credit.
- If you work, but earn low wages, you may qualify for Working Tax Credit.

In both cases the amount of your claim will depend on your income.

As always there is a minefield of small print to negotiate before you can establish if you have a valid claim.

Generally speaking you may qualify for some element of tax credit if the following circumstances apply:

1. You will need to live and work in the UK.
2. Be aged 16 years or over.
3. If you don't have children and you are under 25, you probably don't qualify for tax credits unless your partner is 25 or over and they normally work over 30 hours a week..

Your household income must not exceed £58,000 per year. Household income means money you (and your partner if you have one) have coming in each year including:

- your wages and benefits from employment
- any earnings from self-employment
- any interest on savings and investments you have
- some, but not all, state benefits
- Pensions
- money from abroad
- money from property you own, e.g. rent

It does not include money that other members of your household have coming in.

If your income starts to fall as a result of the current slow-down you may become eligible to claim tax credits. Contact us if you feel this is the case.

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## Biking tax free!

There are a number of formal "tax-free bike schemes" which have been developed in response to the Government's "Green Transport Plan".

Basically your employer buys a bike and hires it to you until you have paid back its full cost.

The tax break is facilitated because you pay for the bike by agreeing to reduce your monthly/weekly salary, before tax and NIC is deducted. Paying in this way you can meet your repayments out of your pre-tax rather than post taxed income.

This can translate to almost a 50% cash discount on the price of a new bike. Higher rate tax payers will benefit more from the scheme.

The scheme only applies to employees, if you are self-employed the bike could probably be claimed as a business expense, if you use it for business purposes.

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## **VAT - buying and selling a business**

If you buy a business as a going concern, in other words if you continue with the existing trade in place of the seller, you do not have to pay VAT on the transfer of the trading assets.

But beware. The reason you do not need to pay VAT is that the transfer of a business is considered to be outside the scope of VAT. If the seller is advised to adopt a broad brush approach and just charge VAT because he cannot decide if a bona fide sale as a going concern applies, you may be denied recovery of the VAT added!

It is therefore important to clarify whether the sale is a sale as a going concern or not.

### **Purchasing property**

Further complications can arise if you purchase a business property which has an existing option to tax applied. This means that all income generated by the property is a standard rated output. It also means that a seller may be required to add VAT to the sale price.

However the seller can avoid this VAT add-on if one of two specific circumstances apply:

- if the new owner makes an election to opt to tax their interest in the same property. This election must be made before ownership is transferred,
- if the new owner is buying the property to convert to dwellings.

In both cases there are prescribed forms to fill in and file.

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## **Tax Diary November/December 2008**

**1 November 2008** - Due date for corporation tax due for the year ended 31 January 2008.

**19 November 2008** - PAYE and NIC deductions due for month ended 5 November 2008. (If you pay your tax electronically the due date is 22 November 2008)

**19 November 2008** - Filing deadline for the CIS300 monthly return for the month ended 5 November 2008.

**19 November 2008** - CIS tax deducted for the month ended 5 November 2008 is payable by today.

**1 December 2008** - Due date for corporation tax due for the year ended 28 February 2008.

**19 December 2008** - PAYE and NIC deductions due for month ended 5 December 2008. (If you pay your tax electronically the due date is 22 December 2008)

**19 December 2008** - Filing deadline for the CIS300 monthly return for the month ended 5 December 2008

**19 December 2008** - CIS tax deducted for the month ended 5 October 2008 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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