

BUSINESS TAX SAVER

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SAMPLE ISSUE

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TAX DEDUCTIONS

How to Claim a BIG Home Office Deduction

By Carl Bayley BSc ACA

MANY SMALL businesses start in a spare bedroom or on the dining room table. Even when we're well established, most of us work from home at least part of the time. Working from home means you can claim a part of your household costs for tax purposes. But who can claim, how much and which costs?

Who Can Claim?

Almost everyone in business could make some claim for 'use of home'. I don't know any business owner who doesn't at least take some paperwork home or make business calls from home. Imagine you're a sole trader running a small garage. You need to renew your business premises insurance. You take the proposal form home to complete after work. You've just used your home for business and you're entitled to make a claim.

It constantly amazes me how many people think they're not entitled to the 'use of home' deduction: there are so many popular misconceptions about it.

Firstly, it doesn't matter what kind of business you have and property investors are just as eligible to claim as anyone else.

Many people think they can't claim because they're already claiming for an office, a shop, or other business premises. Not true! Although the amount of the claim is likely to be less, a 'use of home' claim is still possible

as long as some work is carried out at home. (It's also worth noting that, if you have two or more homes, you can make claims in respect of any business use of any of them.)

Business partners need to ensure the costs go through their firm's accounts. This will need the other partners to agree the claim, but this doesn't stop a claim from being made.

How Much Can You Claim?

Claims should be based on the proportionate use of the property for business. There are many possible methods for calculating the business proportion. The main factors to consider are time and space: how much space is set aside for business use and how much time is spent on business.

In practice, the most popular method is to simply take the number of rooms used for business as a proportion of the total number of rooms in the house. Hallways, bathrooms and kitchens are excluded from the calculation.

Billie designs rose gardens and uses a room in his house as his office. The house also has two bedrooms, a living room, a dining room, two bathrooms and a kitchen.

We can ignore the bathrooms and the kitchen, so this leaves five rooms for the purpose of our calculation, meaning that Billie can claim one fifth of his household costs. So, if Billie's annual

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The Costs You Can Claim

A self-employed person working from home may claim a proportion of most of their household costs, including:

- Mortgage interest
- Council tax
- Water rates
- Repairs and maintenance
- Building and contents insurance
- Electricity
- Gas, oil or other heating costs
- Cleaning

Telephone and internet costs may also be claimed, where relevant, although this tends to form a separate claim as the business element of these costs is usually a far higher proportion than for other household costs.

General repairs and maintenance costs relating to the whole property,

such as roof repairs or gas maintenance costs may be claimed in the usual proportion.

Costs which are specific to an area used for work may be claimed in full – subject to any reduction required for partial private use of that area.

Redecorating a study used for work would be an allowable cost, for example. The flipside of this is that any costs specific to a wholly non-work area may not be claimed at all.

Capital allowances may also be claimed on any furniture and equipment used for business, with immediate 100% relief usually available on expenditure of up to £50,000 a year (subject to a reduction for any private use).

household costs amount to £20,000 and he uses the office room exclusively for business, this entitles him to claim a deduction of £4,000.

This method is nice and simple, but it is always worth considering whether another method might yield a better result. What if Billie's design work requires a lot of space and the room he uses is actually the largest in the house?

In this case, it would be better if Billie did his calculation based on floor space, as this would produce a greater deduction for him.

There is an almost infinite range of other factors you might consider. Suppose Billie's office requires specialised lighting which consumes a lot of electricity – he might be able to claim a higher proportion of his electricity bills. Billie might argue that his work equipment is highly valuable and he should therefore claim a higher proportion of his contents insurance. (In fact, such equipment may sometimes need a separate policy – if so, this would be allowed in full, but with no deduction allowed for Billie's 'normal' contents insurance.)

Take care when isolating individual costs in this way though. Moving away

from the simple method is like opening Pandora's Box; you will need to be consistent and there may be other elements to your claim which go the other way, leaving you worse off than when you started.

In particular, HM Revenue and Customs ('HMRC') takes the view that 'fixed' annual costs such as mortgage interest, council tax and insurance need to be allocated on the basis that a room is available for private use whenever it isn't being used for business. This method creates a great deal of complexity and is not widely followed in practice but HMRC may attempt to impose it in the event of an enquiry, as it will often lead to a substantial reduction in the claim.

Wasted Space

It may be worth thinking about the impact on your claim of a room with little or no use of any kind. Let's suppose that Billie never uses his dining room. The room's mere existence means he is claiming just one fifth of his household costs. Arguably, if the room is never used, he might justifiably claim a quarter instead.

Better still, Billie should start using the dining room for business. Then he could claim up to two fifths of his household

costs (depending on how much he uses the room).

Using a room for business can take many forms – completing paperwork, taking business calls, meeting customers, storing files or other business items – even just sitting there thinking about your business.

Protect Your Home

When there is some private use of a room used for business, you will need to restrict your claim.

Once a week, Billie has some friends round for a game of poker and they use his office. They play for about four hours each week. Billie works in his office for 46 hours a week on average, so his business use amounts to 46/50ths, or 92%. With total annual household costs of £20,000 and five rooms to be taken into account, this means that Billie may now claim a deduction of £3,680 (£20,000 x 1/5 x 92%).

"Why don't they play cards in the dining room?" I hear you ask. One possible reason is that Billie wants to protect his Capital Gains Tax ('CGT') exemption.

The CGT exemption which you usually get when you sell your home is restricted if part of the house has been used exclusively for business. Fortunately, as long as there is some private use of each room in the house, no matter how small, your CGT relief is safe.

In fact, you can counter-balance that small element of private use of your 'work room' with a small element of business use in another room, thus restoring your Income Tax deduction to its previous level with no loss of CGT relief. For example, if Billie used his dining room for business 8% of the time, his total claim would be restored to the original one fifth. In cases like this, it is wise to make a note of the logic behind your claim in case of any later enquiries.

Work, Rest and Play

For smaller properties, looking at floor space or number of rooms may be unsuitable and it will often make more sense to make claims on a time basis instead.

Donna is a self-employed web designer. She works at home in her small one bedroom flat. Because her flat is so small, Donna is effectively using the whole flat for business when she is working. Conversely, of course, when she isn't working, she is using the whole flat privately.

In this case, we could use what I call the 'work, rest and play' principle - assuming that Donna spends an equal amount of time on each, she should claim one third of her household costs.

Many self-employed people work more than a third of the time, so a greater claim will sometimes be justified. Since HMRC staff are not self-employed, it may be wise to retain some evidence of your actual working hours in order to convince them of this.

Small Claims Caught

For cases where there is only minimal business use of the home, HMRC's own manuals suggest that claims of up to £2 a

week (or £104 a year) should not generally be challenged (although there must be some regular business use). This is particularly useful for those with only a small amount of work to do at home, such as a landlord with just one rental property.

It isn't much, but it saves the effort of doing any more complex calculations and will also save enough tax to pay your Business Tax Saver subscription for a few months!

Company Directors

Directors and other employees may only claim the specific additional costs of working from home – generally just heating and lighting. Where it is impractical to calculate the exact costs, a claim of £3 per week is permitted.

They must also be required to work from home: simply choosing to do so is not enough. If you run your company from home and have no other business

premises, this is pretty obvious. In other cases, you will need to demonstrate a genuine need to carry out your duties at home and may also need to stipulate a requirement to do so in your employment contract.

In order to get tax relief, extra salary over and above the personal allowance will be required. This will lead to additional National Insurance costs. In some cases, this can be avoided by having the company reimburse the costs instead.

A better alternative in many cases is for the company to rent space at the director's house. A suitable proportion of ALL household costs can be deducted from the rent received and no National Insurance will be due. The company will also be able to claim Corporation Tax relief for the rent paid. This is likely to amount to exclusive business use, leading to a restriction in CGT relief, but the savings produced will generally outweigh any resultant cost. □

TAX CREDITS

Many Business Owners Can Claim Tax Credits this Year

By Carl Bayley BSc ACA

PEOPLE TEND to think Tax Credits are just for poor families. Completely untrue! Few people realise just how high your income can be before you cease to be eligible or just how much is available even when you have no children.

A family with two children and household income of £40,000 could still claim up to £8,924 in the 2009/10 tax year; a working couple with no children could claim up to £4,525!

With many business owners experiencing a fall in income, many who have never claimed Tax Credits before stand to benefit – IF they make a claim!

Don't wait for your accountant to tell you about this. Most refuse to deal with Tax Credits and, in any case, there's a

strong chance they won't look at your accounts in time: **the deadline for a full claim is 5th July - any later and you lose part of your entitlement.**

Taxable Household Income

The first thing to understand about Tax Credits is they are based on household income. A couple living together make one claim based on their combined income.

Next Month...

The 2009 Budget takes place on April 22. Next month's issue of *Business Tax Saver* will take an in-depth look at all the tax changes that affect you and your business.

Secondly, Tax Credits are based on taxable income (with an exemption for the first £300 of investment income). Any planning you do to reduce your taxable income could therefore also create or increase a Tax Credit claim.

Points Mean Prizes

Tax Credits are awarded on a points system. The more points you earn, the more money you get. Points are earned for doing the things the Government likes you to do: working and having children!

A single person aged 25 or over working at least 30 hours a week is entitled to £2,665. Add a further £1,860 if you are a co-habiting couple or single parent. (Remember couples can only make one claim.) Parents working 16 to 29 hours a week also qualify but get £775 less.

Now add the £545 'family element' if you have any eligible children (doubled to £1,090 if you have a child under one) plus a further £2,235 per child. Count all children under 16 and 16 to 18 year-olds in full-time education.

Adding this up gives Tax Credit entitlements of £4,525 for a childless couple; £7,305 for a family with one child and a

Tax Credit Planning Tips

Doubling Up

Where your income increases from one year to the next, your initial Tax Credit claim (based on the previous year) is only adjusted to the extent that your income increases by more than £25,000.

This is known as the 'income disregard' and provides us with a truly wonderful tax planning tool. In the vast majority of cases, where you claim Tax Credits one year you should receive a similar amount next year, even if your income increases. This provides an opportunity to double up your claim.

Jamie, who is a self-employed plumber, bought a new van for his business at a cost of £20,000. Thanks to the annual investment allowance, this reduced his taxable profits by £20,000, saving him £8,200 Income Tax and National Insurance. Jamie has three children in eligible childcare, so his reduced taxable profits also increase his Tax Credit entitlement by £7,800 (£20,000 x 39%).

Next year, Jamie has no new van to claim for, so his taxable profits go back

up by £20,000 BUT this is disregarded for Tax Credits and Jamie gets an extra £7,800 again! Taken together, Jamie's tax savings and extra Tax Credits add up to £23,800 – 119% of the cost of his van!

Company Directors

The income disregard enables directors to take dividends or bonuses without losing Tax Credits. The technique is simple: take your payment every second year.

Tom and Sarah claim Tax Credits for 2009/10 on the basis of combined income for 2008/9 of £20,000. In 2009/10, they each take their usual salary of £10,000 but also pay themselves a total gross dividend of £25,300 (a cash dividend of £22,770 grossed up by 10/9ths).

The first £300 of investment income is ignored and the remaining £25,000 is covered by the 'income disregard'. For Tax Credit purposes the couple's income remains £20,000 and not a single penny of their claim is lost. Tom

and Sarah's initial Tax Credit claim for 2010/11 will be reduced, due to their higher level of income in 2009/10. However, if they just stick to their regular salaries for 2010/11 and do not take any dividends, their taxable income will fall back to £20,000 and their final Tax Credit entitlement will be adjusted upwards accordingly.

Then, in 2011/12, they can pay themselves a Tax Credit friendly dividend again!

By paying dividends bi-annually, Tom and Sarah claim Tax Credits every year based on their modest salaries alone. This technique carries some risk of challenge by HM Revenue & Customs who may argue that you are deliberately depriving yourself of income.

Arguably, however, bonuses and dividends are not part of a director/shareholder's regular income, so how can not taking them amount to depriving yourself; especially where a regular salary or more modest dividend is already being taken?

further £2,235 for each additional child. The more children, the more Tax Credits: there's no limit!

But there's more. Working parents can also claim further Tax Credits equal to 80% of eligible childcare costs up to £175 per week for one child or £300 per week for two or more children. That's up to £12,480 extra per year.

Withdrawals

Once household income exceeds £6,420, you start to lose your Tax Credits at the rate of 39p per £1 of additional income. All except the 'family element' which is only withdrawn at the rate of £1 for every £15 of household income in excess of £50,000.

This withdrawal of Tax Credits is why many people believe they are unlikely to benefit. But just look at the accompanying table. 'Maximum Income' is the point where Tax Credits are withdrawn altogether. This is pretty high for a large family; even with just two children, it's

nearly £70,000. These figures include maximum eligible childcare costs but, even without these, a family with four children and income of £40,000 is still eligible for £914 - well worth claiming!

No. of Children	£40,000 Income	£50,000 Income	Max Income
1	£1,489	£545	£58,175
2	£8,924	£5,024	£69,659
3	£11,159	£7,259	£75,390
4	£13,394	£9,494	£81,121

Don't Miss the Boat

Tax Credit claims are initially based on your previous year's income. A claim for the year ending 5th April 2010 (2009/10) is initially based on your taxable income for the year ending 5th April 2009 (2008/9). For sole traders and partners, this generally means initially looking at trading accounts for periods ending between 6th April 2008 and 5th April 2009.

However, where income falls from one year to the next, the final entitlement for a year is determined by that year's

taxable income.

Martha is a single parent working full-time in her business. Her mother looks after her two children, so she has no eligible childcare costs. She is entitled to Tax Credits of £9,540 for 2009/10 before any withdrawal but, as her profits for the year ended 30th June 2008 were £70,000, she is currently unable to claim any.

Martha's profits for the year ending 30th June 2009 are likely to be significantly less so she makes a provisional Tax Credit claim for 2009/10. Initially, her claim is based on her 2008/9 income so she receives nothing. When her income for 2009/10 is finally calculated as £20,000, however, she receives £4,244.

In this example, Martha received her full entitlement because she made a provisional claim. *To preserve your full entitlement for 2009/10, it is crucial to make such a claim by 5th July 2009.* To do this go to www.hmrc.gov.uk/taxcredits □

How to Make Tax-Free Loans to Directors

By Nick Braun PhD

IT USED to be illegal for companies to make loans to directors. Not anymore. Since October 2007, loans of any amount are allowed, providing they are approved by the company's shareholders. Obviously, for most small companies, this is not a problem because the shareholders and directors are the same people!

Why borrow money from your company? Some directors may do it to cover short-term financial emergencies. Others consider it as an alternative to paying taxable dividends or bonuses.

Loans to directors do have tax consequences, but it is possible to mitigate the damage if you understand the rules.

The Company's Tax Position

Most private companies are "close companies". If you are both a director and shareholder of a close company you are known as a "participator". Some other shareholders are also classed as "participators".

If a company lends money to a participator the company will have to pay 25% tax on the loan. This is known as the Section 419 charge. Failure to pay it will result in penalties and interest.

However, the 25% tax does NOT have to be paid on any amount repaid within nine months of the company's financial year end. (The normal due date for the company's corporation tax.)

So, short-term loans to directors do not attract any corporation tax.

Example

Bill Ltd's financial year ends on December 31. The company makes a £10,000 loan to Bill, the sole shareholder and director, on April 15, 2009. Bill repays the loan on September 30, 2010. The company will not have to pay the 25% tax

and will not have to declare the loan on its tax return.

Even if the 25% tax does end up being paid because the loan is not repaid on time, the tax will be refunded when the loan is repaid. That's the good news. The bad news is the company will only be repaid nine months after the end of the financial year in which the loan is repaid. So your company could end up waiting up to 21 months to receive its refund!

Loans to Family

The 25% tax applies not just to loans to directors but also loans to your 'associates'. These include your spouse, parents, children or grandchildren (of any age), brothers and sisters, business partners and certain trusts.

The tax does NOT apply, however, if the loan is made to your in-laws. For example, your company will not be taxed if the loan is to your son-in-law, unless he, or the daughter he is married to, is also a participator.

The 25% tax also does not apply if your company lends money to your uncles, aunts, cousins or friends, unless, of course, they too are shareholder/directors.

The charge will apply, however, if the loan, or the benefit of it, is simply passed on to you or one of your 'associates'.

Interest on the Loan

The company pays corporation tax on any interest paid to it by the director.

Where you have to be careful is if the interest charged on the loan is less than the "Official Rate" (4.75% from March 16, 2009).

A director who pays interest at a lower rate will be treated as having received a

benefit in kind and income tax of up to 40% will be payable. The company will also have to pay Class 1A national insurance at 12.8%.

The benefit in kind is reduced by any interest paid to the company, although a formal obligation to pay is required. So if you pay 2% interest, the benefit in kind will be 2.75% (4.75% less 2%).

Paying interest at the official rate is usually the best course of action. Most companies pay tax on this income at around 21% instead of a total income tax and national insurance cost of up to 52.8%.

Even if you take this interest back out as a dividend, the total tax cost will be no more than 46%, which is still better than 52.8%!

Escape the Benefit in Kind Rules

Some loans are exempt from benefit in kind charges, which means your company can make a zero-interest loan with no adverse tax consequences:

Loans for Business. There is generally no benefit in kind charge if the money is used to invest in another company you own. This includes most property investment companies, so it would be possible to borrow money from one company and use it to reduce the mortgage debt in a property investment company (watch out for the 25% Section 419 tax though). There is also no benefit in kind charge if the loan is to a partnership carrying on a trade or profession.

The £5,000 Exemption. Where the total balance outstanding on all other loans made to a director is £5,000 or less throughout the tax year, there is no benefit in kind. Even if you just take the money and stick it in the bank, this provides an opportunity to save some tax and earn more interest. Company savings accounts currently pay paltry interest – often no more than 0.1%, compared with up to 3.5% payable on individual accounts.

Let's say Jack and Jill, both directors of Jack and Jill Ltd, take loans of £5,000 each at the beginning of the company's financial year in April. They stick the

Get Your £75 Tax-Free Employer's Payment

THE END of the tax year on 5th April is a key date for employers and a good time to think about any cost or efficiency savings you can squeeze out of the PAYE system.

Online Filing Credits

Any business with fewer than 50 employees can get a tax-free payment of £75 back from HM Revenue and Customs (HMRC).

That makes a nice change, doesn't it?

The credit is usually set off against your future PAYE bills but small employers can ask for a cash repayment. All you need to do to get your tax free cash is to submit your employer's end of year annual return (known as a P35) online by the due date of 19th May.

To file online you will need to register with HMRC's online filing service. This takes a few days, so it is best to get this done as soon as possible.

To register go to <https://online.hmrc.gov.uk>

Small Companies

Naturally, you do need to be an em-

By Isabel Miller BA

ployer to get the tax-free credit and you also need to have paid some PAYE tax or National Insurance (NI) for the year.

Remember though that a small company with no employees other than its directors is still an employer. All you need to do is to pay yourself just enough to have created a small PAYE or NI liability for the company and the credit is available.

Dispensing with Paperwork

Many employees incur business expenditure whilst carrying out their work.

When the employer reimburses this expenditure it creates a great deal of paperwork as most payments to employees must be reported on a form P11D every tax year. A separate form is required for each employee receiving any expense reimbursements.

In many cases, all this can be avoided simply by applying to HMRC for a dispensation. A dispensation may be granted where HMRC are satisfied that

payments to employees do not give rise to any taxable benefit. Dispensations may also be available where the employer meets certain personal expenses, such as professional subscriptions.

Sadly, however, you cannot get a dispensation for some things, such as company cars, private medical insurance and employee loans.

With the start of the new tax year on 6th April, now is a good time to apply for dispensations, as this could dramatically cut down the time spent preparing forms P11D next summer, leaving you with more time to run your business.

To apply for a dispensation using form P11DX go to:

www.hmrc.gov.uk/forms/p11dx.pdf

A dispensation is not generally required for mileage payments to employees using their own cars for business travel.

Where these payments do not exceed HMRC's approved rates they do not need to be reported on form P11D in any case. □

money in ISAs (£3,600 each before April 5 and the rest after), earning 3.5% tax free. They repay the loans 21 months later, just in time to prevent the company paying the 25% tax. In total, they have earned £600 tax free, compared with the £20 of taxable interest the company would have earned.

Who Does Not Escape the Benefit in Kind Rules?

As we know, loans to family members (except in-laws) trigger the 25% tax on the company. You also have to pay tax on the benefit-in-kind for loans to a relative where the interest charged is less than the official rate.

The definition of relatives here is much wider and includes virtually all your family AND their spouses, so a zero-

interest loan to your son-in-law would result in YOU paying tax on a benefit in kind. There is no benefit in kind charge on any loan you make to your friends, uncles, aunts or cousins unless, again, the benefit of the loan passes back to you or a closer relative.

Loans Written Off

If your company has paid the 25% charge and then writes off the loan, the loan will be treated as a dividend. The company gets its repayment as usual, but you will be subject to income tax on this deemed dividend. For a higher-rate taxpayer, this comes to the same amount.

This could be useful if the company doesn't have enough profits to pay a dividend – it can make a loan instead, then waive the loan and have it treated as a

dividend instead of salary. However, it could be dangerous to do this. HM Revenue and Customs also has the power to tax loan waivers as a benefit in kind and may do this where the loan was clearly just a device to avoid income tax and national insurance.

Where Section 419 tax has not been paid, you run the risk of having the cancelled loan taxed as salary. To avoid this risk, it is better to declare a matching dividend to effectively repay the loan instead.

Finally, make sure you do the necessary paperwork. There should be a written memo outlining the nature of the loan, the extent of the company's liability and the amount and purpose of the loan. This should be approved at a shareholders meeting or by written resolution. □

Buy Commercial Property & Claim a £50,000 Deduction!

By Carl Bayley BSc ACA

MOST BUSINESSES buying commercial property will now be entitled to an immediate tax deduction of up to £50,000.

This arises due to two important changes which came into effect in April 2008. Firstly, most businesses are now entitled to immediate tax relief on up to £50,000 of qualifying capital expenditure each year. Secondly, a new category of qualifying expenditure has been introduced: 'integral features'.

For many years, there has been an ongoing battle to define the boundary between buildings, which do not usually qualify for any capital allowances, and the equipment within the buildings which does qualify.

The new category introduced in April 2008 covers the borderline items and will provide tax relief for millions of pounds of commercial property expenditure. The items qualifying for tax relief include:

- Electrical lighting and power systems
- Hot and cold water systems
- Heating, air conditioning, ventilation and air purification systems and floors or ceilings comprised in such systems
- Lifts, escalators and moving walkways

In other words, all the electrics, all the plumbing and all the heating and air conditioning in most commercial property are now eligible for tax relief. Combine this with the new £50,000 'annual investment allowance' and the result is that most businesses will get immediate tax relief for a significant proportion of the cost of any new commercial property.

Almost any type of commercial property will qualify, including shops, offices, hotels, doctors' and dentists' surgeries, workshops and garages. The property does not need to be newly built – the

relief applies to any property purchased on or after 6th April 2008 (1st April 2008 for companies). All that is required is that the property is used in a qualifying business and this includes property rental, meaning that commercial property landlords also qualify for the relief.

The £50,000 allowance applies every year. Qualifying expenditure in excess of this amount generally attracts writing down allowances at 20%, although the rate for 'integral features' is just 10%. This rather measly rate can be avoided by simply allocating the £50,000 allowance to 'integral features' in preference to other qualifying expenditure.

Anyone buying commercial property from April 2008 onwards stands to benefit from significant tax savings simply by allocating part of the purchase price to 'integral features' and other items of qualifying equipment within the property, such as white goods, sanitary ware and moveable partitioning. More than 30% of the price of a modern office will often qualify for allowances and even an empty retail unit could yield a claim of around 15%.

Purchase price allocations must be made on a reasonable basis and a surveyor can

help you with this. Make sure you get a surveyor who knows about integral features though!

You make your allocation as part of your own tax computations. It doesn't matter whether there is a price allocation in your purchase agreement, although this can be persuasive and could be used in your favour if it is reasonable. If the agreement has an unreasonably low allocation to qualifying equipment, you are perfectly entitled to ignore it and substitute your own allocation.

One thing you must watch out for though is a 'Section 198 Election'. Sellers often try to get property purchasers to sign these joint elections in order to set a low price for the qualifying equipment within the property for tax purposes. This will usually save tax for the seller but reduce the allowances available to the purchaser.

Even if you do end up signing an election, however, it only fixes the price of the equipment on which the seller claimed capital allowances themselves. If they held the property before April 2008, this will not generally include any cold water plumbing or electrical systems, so you will still be free to claim allowances on these.

If you want to replace any of a property's 'integral features' (e.g. rewiring it or putting in a new heating system) try to wait until your next financial year after the year of purchase. That way you'll be able to claim immediate tax relief on up to £50,000 on the purchase and another £50,000 on the following year's replacement expenditure too! □

Residential Property

Capital allowances are not available on a 'dwelling house' let out as part of a property letting business. This means that integral features in most residential letting property will not qualify for any allowances.

Allowances will, however, be available on integral features in residential landlords' own trading premises, qualifying furnished holiday accommodation, common areas within blocks

of flats (as these do not form part of any 'dwelling house') and residential property used for trading purposes (e.g. to provide staff accommodation).

In theory, self-employed people (including landlords) working from home could even claim capital allowances on a proportion of the 'integral features' in a new house they buy for themselves, although this is yet to be tested in practice.

Ask the Experts...

Q. Can I employ my 13 year old daughter in my business doing some filing and other basic admin tasks, pay her a tax-free salary and claim the expense as a tax deduction?

A. Absolutely! For the tax year starting on 6th April 2009, you can pay your daughter up to £6,475 tax free. As she is under 16, she is not subject to national insurance (and neither are you as her employer). She is, however, entitled to a personal allowance of £6,475 for 2009/10, meaning that she will have no income tax to pay (unless she has any other untaxed income or large amounts of taxed investment income).

There are a few provisos, however. You will, of course, be required to pay the money to her and the money must be hers to do with as she pleases. Furthermore, her pay should not be unreasonably high for the tasks she performs. You must pay her no more than you would pay a non family member of her age and experience. Lastly, you will need to observe the laws relating to the employment of young children which will restrict the hours that she is able to work.

Q. In last month's issue your lead article was about the new capital allowances regime for cars. The article was interesting but I have some follow-up questions:

- 1. Can property investors claim capital allowances for cars?**
- 2. I bought my car a few years ago. Can I start claiming capital allowances even now?**
- 3. Can I claim capital allowances for more than one car?**

A. Answering each of your questions in turn:

1. Property investors certainly can claim capital allowances for their cars. If you own rental properties then you have a property business (with the emphasis on the word "business").

Subject to a few exceptions, property business owners qualify for the same tax deductions as other businesses.

If the car is used exclusively for business purposes (and not for any private purpose), you qualify for the maximum capital allowance deduction. If the car is used privately part of the time, then your capital allowance claim must be reduced proportionately.

2. Even if you purchased your car a few years ago, you can start claiming capital allowances when you complete your next tax return. In fact, you can still make amendments to your 2008 tax return and claim for that year too!

Your claim must be based on the market value of the vehicle when first used in your business. So, if you bought the vehicle three years ago for £15,000, you can base your claim on that value.

3. You can claim capital allowances for as many cars as you like, providing, of course they are used in your business.

For example, let's say you have two cars and use both privately half of the time and both for business purposes half of the time.

In that case, your capital allowances claim for each car will be restricted to half of the maximum allowance.

Q. What is the tax position regarding entertainment costs for directors and employees? I understand that my company can treat its two directors and two other employees to an annual function and the cost will be tax deductible. Is that all?

A. There are two issues to consider here – whether the company may claim a deduction for the cost of staff entertainment and whether the staff themselves are taxed on the benefit they receive.

In general, staff entertainment is tax deductible provided that it is for the benefit of the company's business. Events open to all staff will generally meet this test, but any events open to directors only will not. This generally prevents a small company with no employees other than its directors from being able to claim any such costs.

The allowable costs of a staff function also extend to transport and overnight accommodation, where relevant. If you are VAT registered you can also recover the VAT incurred on the event, including all the food and booze!

The basic rule is that staff are taxed on the cost of any entertaining provided by their employer. However, where an annual event is open to all members of staff, you can spend up to £150 per head per year without creating a taxable benefit for your staff. It doesn't have to be a single function (such as a Christmas party).

You can have as many events as you like, as long as they are open to all members of staff and the aggregate cost per head does not exceed £150. □

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