

TAX E-NEWS

Monthly Update – December 2010

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CLIFTON HOUSE
PARTNERSHIP

CHARTERED
ACCOUNTANTS

Incorporating Susan J Arthur & Co

Welcome to our monthly tax newsletter designed to keep you informed of the latest tax issues.

We hope you enjoy reading the newsletter and remember, we are here to help you so please contact us if you need further information on any of the topics covered.

Best wishes

EMPLOYER-SUPPORTED CHILDCARE

There are new rules from 6 April 2011 and the exact details have now been published. The amount of exempt childcare that can be provided to a given employee will depend upon a '*basic earnings assessment*' made by the employer at the beginning of the tax year. If the assessment shows that the employee is likely to be paying income tax at the 40% or 50% rate, the weekly limits will be £28 and £22 respectively. Basic rate taxpayers and those who already participate in an employer-supported childcare scheme before 6 April 2011 will be subject to the familiar £55 per week limit. HMRC have published two sets of questions and answers, for employers and employees respectively, to highlight the changes and we will be pleased to advise you by reference to your specific circumstances.

HOW TO GET INTEREST ON DEPOSIT ACCOUNT AT THE MORTGAGE RATE

This sounds attractive, but is only possible if the circumstances are right. You could not only get an annual income advantage, but also at the same time help your child. Here is an example (the figures are purely illustrative):

- ◆ Your daughter has a mortgage of say £200,000 and pays interest at 5%.
- ◆ You pay off £20,000 (10% which often is the maximum possible without a penalty being charged).

- ◆ You receive interest at 5% on the £20,000 from your daughter in place of the derisory amount you currently get from a deposit of £20,000.
- ◆ Your daughter improves her mortgage rating by having a lower loan to equity ratio. This could be very useful if she wants to remortgage or move home.

PENSION SCHEME CONTRIBUTIONS

We've now been told exactly what the new rules are to be for contributions from 6 April 2011 – in place of the previously announced rules from the old government where in particular there were to be restrictions in the rate of tax relief available if your income exceeded £150,000. Simplicity is the name of the game here (that's refreshing for a start), and tax relief will be available at your top tax rate subject to restrictions in what you can contribute as follows:

Lifetime allowance

2010/11	£1.8 million
2011/12	£1.8 million
2012/13	£1.5 million

Annual allowance

2010/11	£255,000 (subject to anti-forestalling measures)
2011/12	£50,000

The aim is to raise the same amount as under the previously announced rules – that was a somewhat ambitious £3.5 billion per year by way of loss of tax relief - but clearly still being able to get tax relief at your top rate on a maximum contribution of £50,000 is an attractive proposition.

Just one word of warning, but only if you are a member of a final salary pension scheme from a large employer where they have changed the way that an increase in your pension benefits can be measured in terms of the new and reduced contribution limit of £50,000. We will be pleased to advise on this.

PLANT AND MACHINERY USED IN A DWELLING-HOUSE

This is specifically debarred from entitlement to capital allowances, unless the property is within the furnished holiday lettings regime. A dwelling-house is not defined under tax legislation, and HMRC accepts that university halls of residence and similar facilities are not dwelling-houses for this purpose.

Student accommodation generally does come within the prohibition, but not communal areas or parts to which the students do not have access. This has provided some scope for getting tax relief as a student landlord, but HMRC have recently attempted to remove uncertainty – unfortunately by claiming that each student flat in multiple occupation is a dwelling-house, given that the individual study bedrooms alone would not afford the occupants the facilities required for day-to-day private domestic existence. Therefore the communal kitchen and lounge are also part of the dwelling-house according to HMRC but not the common parts of the building such as the common entrance lobby, stairs or lifts.

HMRC has supplied an example:

Bob is a landlord owning a block of residential flats and a nursing home. He buys the following:

- ◆ *New cookers for the flats*
- ◆ *A new fire alarm system for the block of flats*
- ◆ *New beds for the nursing home*

No capital allowances claim can be made for the cookers, but a claim can be made for the other expenditure because none of it is for use in a dwelling house.

This new approach does not stop a claim being made for capital allowances on expenditure before 22 October 2010 and we can make sure that any claim is maximized.

ANOTHER PLANNING IDEA ON ENTREPRENEURS' RELIEF

If you make a profit on a business asset which qualifies you for capital gains tax (CGT) entrepreneurs' relief, you will only pay CGT at a rate of 10% subject to the new lifetime limit of £5 million of gains. If on the other hand the asset does not qualify you are likely to pay CGT at 28%. Some difference! Clearly any realistic planning moves which could ensure tax at 10% have got to be seriously considered. A number of ideas are now coming to the surface, one of which is explained here:

Converting a property to a business asset

If you plan to sell a property which is not your main residence, there will be CGT to pay at 28%. Consider, if realistic, letting the property for at least the 12 months up to the sale date, with the lettings coming within the furnished holiday lettings regime. That qualifies you for entrepreneurs' relief with CGT reduced to only 10%, despite the fact that for most of the time the property was perhaps let on a long-term basis or empty. There is no reduction in the amount of entrepreneurs' relief in such a situation as the only requirement is for the property to qualify by reference to usage in the last 12 months' of ownership.