

Welcome...

To June's Tax Tips & News, our newsletter designed to bring you tax tips and news to keep you one step ahead of the taxman.

If you need further assistance just let us know or you can send us a question for our [Question and Answer Section](#).

We are committed to ensuring all our clients don't pay a penny more in tax than is necessary.

Please contact us for advice in your own specific circumstances. **We're here to help!**

June 2011

- [Tax Efficient Profit Extraction](#)
- [Property Development Issues](#)
- [Why Stamp Duty Form Changes?](#)
- [Missing Trader Fraud](#)
- [June Question and Answer Section](#)
- [June Key Tax Dates](#)

Tax Efficient Profit Extraction

[top](#)

As a company owner you can choose how to extract the profits from your company, and by making the right choices you can minimise the tax and NI paid by you and the company.

The Taxman would like you to take all the profits in the form of a salary and possibly a bonus, as these carry the highest NI charges and ensure the tax is deducted under PAYE before you get your hands on the net income. It is good practice to pay yourself at least a small salary that is covered by your personal allowance (£7,475 for 2011/12), as this makes the best use of your tax free allowances. However, the maximum salary you can take so that neither you nor the company pay NICs is £7,072 in 2011/12, as the threshold for NICs is lower than the tax free threshold. You can get credit for NI contributions without actually paying any as long as the salary is above £5,304 in 2011/12.

Most company owners extract any further amount they need in the form of dividends. If the gross dividend is less than the basic rate limit of £35,000 you will pay no further income tax on that income, and no NI charges. However, larger dividend payments will create an additional tax charge in your hands of 25% (for 40% taxpayers) of the net dividend or 36.1% (for 50% taxpayers).

If you don't actually need the income now consider extracting the profits in another form such as **employer pension contributions** although you will have to pay income tax on the pension you eventually receive.

You can also charge a **rent** for assets you own which the company uses. These assets could be real property (land) or intellectual property (e.g. patents). If you lend funds to the company it can pay you a commercial rate of **interest** on that loan. These profit extraction methods are free of NI charges.

We can discuss other methods of extracting profits, perhaps using your family members. Please contact us for specific advice in your own circumstances.

Property Development Issues

[top](#)

There are a wide range of tax issues to consider when developing properties. Here we touch on just a

few of them...

- Your own home is normally free of capital gains tax when you sell it, but this tax exemption does not apply if you purchase a property with the intention of developing it and turning a profit. In this case the profit you make could be subject to income tax (at rates of up to 50%) rather than capital gains tax (18% or 28%), as the Taxman will want to view the development activity as a trade. It is very rare that the Taxman succeeds in proving the development of a single property is a trade, but if you make a habit of developing and selling on properties, while claiming capital gains exemption, you could lay yourself open to a tax investigation.

- Where your property includes a significant amount of land, the profit attributed to the land in excess of half a hectare will normally be subject to capital gains tax. This half-hectare limit can be stretched in circumstances where the land and any accompanying outbuildings are closely related to the main residential building.

- When purchasing a run-down property to develop you must think about the cost of VAT. If you are not a VAT registered builder you normally can't reclaim the VAT on the development costs. However there is a scheme that allows DIY builders to reclaim VAT when a non-residential building is being converted into a home. There are a number of other conditions that must be met for this DIY builders scheme to apply.

- VAT may be charged at the lower rate of 5% on certain building services when the building has been empty for at least two years, or the development changes the number of dwellings in the building. The rules that allow this lower rate of VAT to apply are very complicated so you need to take advice before you start the development project.

If you are looking at property development it is important to get advice before proceeding.

Why Stamp Duty Form Changes?

[top](#)

Stamp Duty Land Tax (SDLT) forms have changed, but why?

The forms used to report Stamp Duty Land Tax (SDLT) due on a purchase of UK land and property are changing. The lead purchaser must now provide an identity number such as NI number and date of birth. Where the purchaser is a company the company's tax reference number (UTR) or VAT registration number should be used. Partnerships should use their UTR or VAT registration number.

If the lead purchaser does not have any of the above reference numbers, as they are not registered for tax in the UK, they should use another unique reference number such as passport number, and state the country of issue of the document.

The new forms have been available since 11 April 2011, and will become compulsory from 3 July 2011. The online filing system for SDLT will incorporate the changes from 3 July.

The Taxman may well be collecting the additional information for a reason, perhaps to cross-reference to taxpayers files!

Missing Trader Fraud

[top](#)

This is a type of VAT fraud that costs the UK millions of pounds every year. It works like this...

A VAT registered company based in the UK purchases small high-value goods (such as mobile phones) in another EU country and imports them into the UK (with zero-rate VAT). The importer then sells those goods at a VAT-inclusive price within the UK. However, before the VAT collected from the UK customers is paid over to HMRC, the importing company is liquidated and its directors disappear (become a **missing trader**), leaving the VAT unpaid.

However, this is not the end of the story, as if you are the UK customer who bought those goods from the fraudulent importing company, the Tax Office will block your claim for repayment of the VAT you paid on your purchase. This block can apply whether or not you knew you were part of a fraudulent supply chain.

To avoid involvement in a chain of suppliers that includes a criminal trader you should undertake 'know your customer' checks. These involve carrying out credit and identity checks on your supplier, and on the directors of the company. Also check the goods actually exist and are as described (i.e. new goods). You should be suspicious if you are offered a deal that looks very attractive and has any of the following attributes:

- The company is newly established and has no financial or trading history.
- The company has been acquired recently and the new owners have no previous involvement in your sector.
- The company trades from residential or short-term lease property.
- Your contacts in that company have a poor knowledge of the market and products.
- There is no apparent risk for you in the deal.
- Repeat deals at the same or lower prices and small or consistent profit.
- Instructions to make payments to third parties or into offshore bank accounts.
- You are asked to pay much less than the full market price for the goods.
- You are offered an unsecured loan with unrealistic interest rates and/or terms.

June Question and Answer Section

[top](#)

Q. In 2009 my family and I moved out of the home I owned and rented a house near my daughter's school. I have recently sold the original home. Do I qualify for the capital gains tax exemption on that property, even though I wasn't living in it when it was sold?



A. Yes you do qualify for the tax exemption. As you sold your former home within three years of moving out, all of the gain arising on the sale of property will be exempt from capital gains tax. This assumes you occupied the property for all of the period that you owned it, before you moved out. You do not have to declare the gain on your tax return.

Q. On 15 April 2011 I received severance pay of £80,000 equal to my annual salary, but I was surprised that £23,000 was deducted as tax. I was led to believe the first £30,000 would be tax free and the rest would be taxed at 20%. Can I reclaim the excess tax deducted?

A. It is likely that the first £30,000 of your severance award was tax free, if it was a genuine redundancy payment. This is not always the case as a number of strict conditions must be met.

In the past when such severance payments were paid after the individual had received their P45 form, a BR (basic rate) tax code was applied to the payment which meant only basic rate tax at 20% was deducted. However, since 6 April 2011 employers are required to apply an OT tax code on a month 1 basis to such severance payments. This means that tax is deducted at the basic, higher and additional rates without the benefit of the personal allowances. The month 1 basis means only 1/12 of the basic rate and higher rate limits for the year are taken into account.

The taxable part of your severance payment (£50,000) would have generated a tax deduction of £23,166 using an OT code as follows...

Basic rate: $35000/12 = 2916.67 \times 20\% = 583.33$
Higher rate: $115,000/12 = 9583.33 \times 40\% = 3833.33$
Additional rate: $(50,000 - 9583.33 - 2916.67) \times 50\% = 18,750.00$
Total = £23166.66

You can reclaim the excess tax charged in your tax return for 2011/12.

Q. I've received a letter from the Taxman asking for my tax return for the year to 5 April 2010 to

be submitted. But I submitted that tax return in September 2010, and I've paid all the tax due for that tax year. Do I have to submit that form again?

A. No. The letter you have received from the Tax Office is a mistake. About 40,000 of these standard letters (Notices SA316) have been printed with the wrong tax year: 2009/10 rather than 2010/11. You should receive another notice SA316 asking for the tax return for 2010/11, and a letter of apology concerning the mistake.

June Key Tax Dates

[top](#)

19/22 - PAYE/NIC and CIS deductions due for month to 5/6/2011



Need Help?

[top](#)

Please contact us if we can help you with these or any other tax or accounts matters.



In addition, if there's anyone else who you think would benefit from the newsletter, please forward the email to them or ask them to contact us to be added to the newsletter list.

New Clients Welcome

[top](#)

If you are not already a client and are interested in becoming one, we would love to come to meet with you to discuss how we can help and provide you with a competitive quote for our services.



All new client consultations are provided free of charge and without obligation.

About Us

[top](#)

Leavitt Walmsley Associates are based in Cheshire, offering local business owners and individuals a wide range of services.

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