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SUMMER 2013

Planning for University Scholarships and Student Loans

Employers can currently make payments of up to £15,480 per academic year to employees for periods of attendance at a full-time education course at university or college (including sandwich courses). Providing certain conditions are fulfilled the payments will be treated as tax exempt in the hands of the employee (as falling within the scholarship income exemption of ITTOIA 2005, s 776). Qualifying payments will also be exempt for Class 1 National Insurance contributions purposes.

Conditions

In order for the exemption to apply, the employee must be enrolled for at least one academic year at the university or college, and attendance at the educational establishment must amount to at least twenty weeks a year on average. Only recognised universities, technical colleges etc that are open to the public at large qualify – unfortunately this means that an employer's own training school or centre will not be recognised for this purpose.

Tip:

In a family company, directors' children are unable to take advantage of this provision because legislation (in ITEPA 2003, s 212) deems there to be a benefit in kind. Nevertheless, in some circumstances a more remote relative (aunt, uncle, grandparent or godparent) could establish such a scheme provided that the student was validly employed and his or her parents not involved with the company.

Student loans

Dealing with the repayment of student loans is a shared responsibility between the Student Loans Company (SLC) and HMRC. Those who are in the UK tax system have their repayments deducted at source by their employers or through their self-assessment tax returns. An account holder is identified in the UK tax system by means of the National Insurance number they will have provided when they first applied for the loan.

Employees

Employers are required to collect student loan repayments through the PAYE system by making deductions of 9% from an employee's pay to the extent that earnings exceed the equivalent of £16,365 a year (increased from £15,795 in April 2013). This equates to £1,363.75 a month or £314.71 a week.

Each pay day is looked at separately, and therefore, repayments may vary according to how much the employee has been paid in that week or month. If income falls below the starting limit for that week/month, the employer should not make a deduction.

Example – Percy starts work

Percy leaves university in June 2013 and starts a new job in August 2013, earning £2,000 a month (£24,000 a year).

His student loan repayments will commence in April 2014, and will be calculated as follows:

Income in April 2014: £2,000 – £1,363.75 (starting limit) = £636.25
£636.25 x 9% = £57.26 repaid in April 2014.

Taxpayers who make repayments through PAYE can swap to repaying by direct debit in the last 23 months of their loan if they so wish. SLC will normally contact individuals shortly before that time to offer the option. This payment method enables account holders to choose a suitable monthly repayment date and ensures that they do not repay too much.

Self-employed

For those who are self-employed, the repayments are collected via the self-assessment system. Broadly, repayments will equal 9% of total income (excluding unearned income, if it is £2,000 or less) in excess of the £16,365 per annum threshold. They will be collected on the normal self- assessment payment dates (i.e. 31 January and 31 July each year).

Practical Tip:

There are provisions for paying off the loan more quickly. Voluntary repayments of £5 or more may be made direct to the Student Loans Company (www.slc.co.uk/services/loan-repayment.aspx), at any time, even if the employee does not earn above the starting limit threshold.

IN THIS ISSUE

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Tax Relief For Business Expenses - Premises Maintenance and Repairs

When you run a business you can deduct expenses incurred wholly and exclusively for the purposes of that business when computing the profits of the trade. This general rule applies to all categories of expenses.

Capital or revenue?

To be deductible as an expense, the item in question must be revenue expenditure rather than capital expenditure. Revenue expenditure is broadly day to day expenditure on services and supplies. By contrast, capital expenditure is expenditure on significant assets that will typically be used by the business over a number of years.

The distinction between capital and revenue expenditure is of particular relevance when looking at expenditure incurred in relation to premises.

Costs of maintaining premises

You may run your business from dedicated business premises, or it may be run from your home. Where a business is run from dedicated premises, the expenses incurred in maintaining and running those premises will be incurred wholly and exclusively for the purposes of that business.

Expenses that may be incurred in relation to the premises include items such as business rents, light, heat, repairs and insurance.

Where the business is run from home, the costs of maintaining the property will have both a business and a private element. The expenses need to be apportioned to determine the business element which could be deducted in computing profits. For example, if one room in a home with eight rooms is used for the business, it would be reasonable to deduct one-eighth of the associated premises costs. Note that if a room is used solely for business purposes, any gain pertaining to that room would not be eligible for the capital gains tax (CGT) private residence exemption when the property was sold. However, this rarely a problem in practice, given the availability of the CGT exemption and the current property market.

From 2013/14 onwards, new legislation will allow sole traders and partners in a partnership wholly comprising individuals to claim a fixed rate deduction where a business is run from home. This is an alternative to working out an apportionment of actual costs. The deduction is a set monthly amount determined by reference to the total hours spent in the home wholly and exclusively on business matters.

Hours spent by an employees are taken into account. The deduction is set at £10 per month where the hours worked is 25 to 50, £18 per month where the hours worked is 51 to 100 and £26 per month where the hours worked is 101 or more.

From 2013/14, a fixed rate deduction can also be claimed by sole traders and partnerships comprising individuals where business premises are also used as a home. A fixed monthly amount is deducted from the actual premises costs for the month depending on the number of occupants. The deduction is £350 for one occupant, £500 for two occupants and £650 for three or more occupants. Again, this is an alternative to making an apportionment.

Repairs

All properties need some on-going maintenance and premises used for the purposes of the business are no exception. A deduction is given for expenditure on repairs as long as it is revenue in nature and incurred wholly and exclusively for the purposes of the business. A distinction is drawn between a repair, which is revenue in nature, and an improvement, which is capital. A repair is essentially something that restores the original condition whereas an improvement enhances it. Common repairs include painting and decorating, fixing tiles, mending something that is broken etc. The cost of any repairs can be deducted in computing profits.

Capital expenditure

Relief for capital expenditure is given by means of capital allowances.

Practical Tip :

To save work, sole traders and partnerships can claim fixed rate deduction from April 2013.

No More Renewals!

At the beginning of April this year, HMRC published an innocuous sounding document called "Revenue and Customs Brief 5/2013", which contained "draft revised guidance" on repairs and their treatment for income tax and corporation tax.

What's changed?

Within this document was confirmation that HMRC will no longer accept claims for the extra-statutory "renewals allowance" for expenditure incurred after 5 April 2013 (1 April for companies).

This was announced some time ago, but I suspect everyone had forgotten about it, but it is now here and will severely affect landlords of residential accommodation.

The renewals allowance was an old practice that first grew up before capital allowances were available, which effectively gave a tax deduction for the depreciation of items of plant and machinery. The cost of the purchase of the first item was not allowed, but after that the cost of replacing it was – subject to adjustments for any sale proceeds of the old item or for any element of improvement in the replacement item.

Example 1 – Renewals of furniture

Jane owns a property which she lets furnished. She could not claim a deduction for the furniture she purchased when she first fitted out the property for letting, but whenever she has to replace an item of furniture, or a television, or a cooker, for example, she can claim a deduction under the renewals allowance for the cost of the replacement.

From 5 April 2013, Jane can no longer claim a deduction for this expenditure.

The withdrawal of the renewals allowance applies to all businesses using plant and machinery, but it will hit landlords of residential property particularly hard. This is because unlike any other trade or business, a landlord of residential property cannot claim capital allowances on plant and machinery that is for use "in a dwelling house". Jane, in the example above, cannot claim capital allowances on the furniture in her let property – whereas if she were letting out furnished offices, she could.

Wear and tear allowance

So what is the alternative? Provided the property is "fully furnished" (which HMRC take to mean that the tenant can effectively move in with just a suitcase full of clothes and find everything he needs in the way of beds, chairs, tables, and kitchen appliances, crockery, and so on) the "wear and tear" allowance can be claimed instead. This is calculated as 10% of the rent on the property (less any part of the rent that covers items like electricity etc that would normally be paid directly by the tenant).

In some cases, the wear and tear allowance may give a better result than the renewals allowance, but not in every case, and the point is that there is now no choice.

No relief at all?

Landlords of unfurnished or only partly furnished accommodation are even worse off – they cannot claim the wear and tear allowance, and now they cannot claim renewals either.

So what is left? The only possible claim is for repairs, and HMRC have made it quite clear that replacing (say) a worn out television with a new one is not a "repair", because it is a replacement of "the entirety" of the item.

The only good news is that they will accept that replacing fixtures (the boiler in the central heating system, for example) is a repair because it is a repair to the building.

Example 2 – A new kitchen

Jane decides the kitchen in her let property is looking rather tired, and so she decides to replace it. She rips out the old fitted units and the fitted cooker and hob, and replaces them with modern ones. The old fridge and washing machine are also replaced.

Jane can get a deduction for the cost of replacing the fitted units and the fitted hob, because these are repairs to the building, but not for the cost of the new fridge and washing machine (which are not "fixtures" and so are not repairs).

Trap

I have heard it suggested that one way round this problem is to set up a company to buy furniture and then rent it to the property business – the idea being that the rental company will be able to claim capital allowances on the furniture. This is likely to be caught by the rules on "special leasing" which specifically deny capital allowances on plant leased to be used in a "dwelling house"

Practical Tip :

If your property is only partly furnished, consider making it fully furnished – at least you will be able to claim the 10% wear and tear allowance. Alternatively, go to wholly unfurnished – if you can't get an allowance for replacing it, why provide it?

Personal Tax

Dividends and Non-Taxpayers

Dividends are received with a non-refundable 10% tax credit. Because this cannot be reclaimed by non-taxpayers, it is worthwhile considering changing investments so as to receive savings income, such as bank or building society interest, rather than dividends.

This is because bank and building society interest suffers a 20% tax deduction, which can be claimed back by a non-taxpayer.

Non-taxpayers can also register to receive bank and building society interest gross (see Tip 9). The ability to receive the full amount of savings income can be very important for pensioners on low incomes relying on their investments to generate income in retirement.

Case Study:

Mr and Mrs Smith have built up a portfolio of investments, which currently yield £9,900 (gross) per annum in dividends. The dividends are all received with a 10% tax credit, which leaves a net income of £8,910. They have no other income.

By switching their investment strategy Mr and Mrs Smith (say by investing in Government Stock), and assuming they receive the same gross income of £9,900 with a 20% tax deduction. This leaves them with a net income of £7,920.

By filing tax repayment claims and utilising their personal allowances, they receive back the £1,980 tax deducted and are left with a net income of £9,900.This means that they are better off by £990 (or 10%).

This can be a very significant amount of money, especially for those on low incomes.

A word of caution. When making investment decisions you should consider the return on investment and any costs, as well as the tax savings, and ensure that the net result from making the switch is beneficial.

Property Tax

Choosing Your PPR

Where you have more than one property it is possible to choose which one is your PPR at any given time, provided the property is or has been used as a home. This option is available to everyone – not just MPs. However, a person can only have one PPR at any one time.

By 'flipping' the properties, it is possible to maximise relief and ensure that the last 36 months for each PPR qualify for relief.

Case Study:

John has a flat in the city that he bought for £100,000 in April 2000. In April 2003 he buys a family home in the country for £400,000. He lives in the flat in the week and the country home at weekends and during holidays.

He elects for the country home to be his PPR.

He sells the country home in July 2013 for £700,000, buying a larger property nearby. As the property has been his PPR throughout the gain is tax-free.

He also sells the flat in July 2013 to fund the larger property, making a gain of £150,000. He is able to claim PPR in respect of the periods from April 2000 to April 2003 and also for the last 36 months.

Had John not flipped his properties so that his country home was his PPR, he would not have been entitled to PPR on the sale and the gain of £300,000 would have attracted capital gains tax.

Although some of the gain on the flat is taxable, the overall tax bill is much reduced.

Business Tax

Claim A Deduction For Mileage Payments

Under the Approved Mileage Allowance Payments (AMAP) Scheme employers can pay employees tax-free mileage rates when they use their own car for business. Provided that the amounts paid do not exceed the rates set by HMRC, no tax liability arises and there is nothing to report on the P11D.

However, many employees are unaware that if their employer pays them at a rate that is less than the approved rate they can claim a tax deduction for the shortfall. The approved rates for 2013/14 for cars and vans are 45p per mile for the first 10,000 business miles in the tax year and 25p thereafter.

Case Study:

Nigel uses his own car for work and in 2013/14 undertakes 9,000 business miles. His employer pays a mileage allowance of 30p per mile. Thus, Nigel receives mileage allowances of £2,700 during the year.

However, at the approved rate of 45p per mile for the first 10,000 business miles, John's employer could pay him a tax-free allowance of £4,050 (9,000 miles @ 45p per mile). This is known as 'the approved amount'.

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