

## Buying Abroad



Cheap flights, a desire to escape the weather and bargain property prices mean that more Britons are looking to buy properties overseas. As with any major asset purchase it is important to take advice before proceeding and essential to engage a qualified lawyer to carry out legal work. Your UK solicitor may be able to do this for you or will be able to advise on selecting a local firm.

To help finance a property many will let it out, but should remember that profits may be subject to income tax in two regimes. UK residents are taxed in the UK on their worldwide income, whereas in many other countries non-local residents will also be taxed on income arising from local assets. This can involve making annual returns in both countries. Many countries have double taxation agreements with the UK, giving the taxpayer credit for all or some of the tax paid in the other country. When working out the profit, do not forget that certain costs will not be allowable for tax, such as capital element of loan repayments and any proportion of the costs which could be taken as for the

personal use of the property, although what can be deducted varies between countries.

Gains made when the asset is sold may also be subject to tax. If a significant part of your time is spent in the overseas property there may be scope to elect for it to be treated as the main residence. Also the UK has generous holiday letting concessions available for those who intend to let the property for at least 20 weeks per year and actually let for at least 10 weeks.

Inheritance rules and taxes vary between countries. Before buying a property it is important that you confirm that you are able to bequeath foreign assets as you wish and that it is done in a tax efficient way. For example in France heirs have to pay inheritance tax between 5% and 40% if they are blood relatives and 60% in other cases, including unmarried spouses. You may not be able to rely on a UK will to distribute non-UK property therefore it would be advisable to look into whether a local will should be drawn up.

UK individuals are often encouraged to set up local or UK companies within which to hold real estate abroad. This is often done to avoid inheritance problems in particular in

countries like France. However not only will the companies fall within the jurisdiction of local and UK income/corporation tax, (subject to the double taxation agreement), but any private usage by the owners/directors will fall within the UK benefit in kind rules, i.e. they will be taxed for using a property that they ultimately own.

Be aware that no two countries' tax systems are the same. Also more information is passing between authorities across borders, therefore for peace of mind it is critical to seek the right professional advice before and during your period of ownership.

At Baker Chapman & Bussey we have developed knowledge of issues to be aware of in certain other countries as well as being able to advise on the UK tax aspects.

Written by Vincent Jones, Senior Partner at Baker Chapman & Bussey.



### Inside Balancing Business

Is your Credit Rating as good as it should be?

Payroll Tips  
*Employment Tax Legislation*

State Pensions  
*How to review your entitlement*

Tax Payers out in the Cold  
*Implications of the 'Arctic' case*

## Is your credit rating as good as it should be?

*Jackie Frost provides a guide to finding out your credit rating and, if necessary, how to get it changed.*



Not all bad ratings are a result of your own actions. Being the victim of identity fraud or living at the same address as someone (an associate) with a bad credit history can have an impact on your own rating. Having a bad rating will at some point lead to problems such as not being able to obtain credit and having to pay higher than necessary interest rates, so it is worth being aware of what information is held about you. Credit reports are publicly available and you will be able to find out details such as:

- Your credit card and loan details including credit limits, start dates, current balance, repayment terms, date satisfied and payment history in terms of being late
- Number of County Court judgements (CCJ's) present
- Contract details such as for mobile phones
- Notices of any corrections you have made to your file, i.e. an explanation for a piece of information in your history that may be misleading
- Bankruptcies and voluntary arrangements
- House repossession details
- Warnings that your current or previous address has been linked to a fraud
- Details of people who have left home with a credit account in arrears without notifying lenders of a forwarding address

Some reports will also give information in respect of associates. This information is available to individuals for a small fee (around £8) from credit reference agencies: the two main ones being Experian and Equifax. Contact details for these can be found on the Internet or from organisations such as Citizens Advice Bureau.

If you find an error on a report you should notify the credit reference agency and ask them to investigate. Any incorrect information should then be removed immediately.

Negative information stays on your credit report for up to six years from the date of satisfaction. When CCJ's are settled and voluntary arrangements concluded they do not automatically update your credit reference details. This is down to the individual to notify the agencies.

If you do not know what the CCJ's relate to, the details can be obtained from The Registry Trust Limited ([www.registry-trust.org.uk](http://www.registry-trust.org.uk)) at a cost of around £4.50. Having identified the CCJ's you will need to obtain a certificate of satisfaction from the court concerned, quoting the case number and providing evidence that the judgement has been paid in full. The certificate of satisfaction can then be presented to the credit reference agencies so that they can mark the CCJ's as satisfied.

When a Voluntary Arrangement has ended a letter of completion and a certificate of compliance should be obtained from the insolvency firm.

Similar steps can be taken to review credit histories and amend incorrect or out of date information about companies.

Using a "credit repair" agency may seem an easy way of dealing with credit history problems. However they often wrongly claim that they can remove CCJ's and some of their methods may not be strictly legal. The best way therefore is to handle the credit problem yourself.

Preventing the credit problem is the best advice. Be alert to the possibility of identity fraud by regularly reviewing bank and credit statements, avoid writing down pin numbers etc., and shred confidential documents that are no longer required. Avoid defaulting on credit card and loan repayments by addressing the problem before it is too late. Seek reputable advice.

## PAYROLL TIPS

*Employment tax legislation is constantly changing usually to the advantage of the Inland Revenue. Here we pick out some points to make use of:*

### Mobile phones

*The general rule in employment tax is that any employee's private expenses met by the employer will potentially incur a tax/NI liability. An exception to the rule is the private usage of mobile phones. There is no benefit on the employee for private calls on a mobile phone as long as the phone contract is in the name of the employer.*

### Employer-supported childcare

*From April 2005 an employee can receive up to £50 per week of qualifying childcare, free of tax and national insurance where the employer contracts directly with the childcare provider. This extends the concessions already in place in respect of workplace nurseries and the voucher scheme by including registered childminders and after school clubs. The £50 per week is per*

*employee, not per child, therefore in theory both parents can claim £50 per week for the same child as long as the contracts are in the name of the employers.*

### Van benefits

*From April 2006 the flat rate benefit incurred for the private use of an employer provided van is increasing from £500 to £3,000 per annum. If private fuel is provided there will be £500 fuel benefit. This change is aimed at those employees being provided with vehicles such as Mitsubishi warriors which are classed as vans. By concession the benefits will no longer be applied when an employee takes a van home as long as any private use over work to home journeys is insignificant.*

*The Revenue has given some examples of 'insignificant', which include minor deviations from home to work e.g. to drop a child off at school, visit the dentist or pop into the newsagent; also if the employer agrees to the employee making a one off trip such as to the rubbish tip. However 'insignificant' does not include the weekly trip to the supermarket!*

## STATE PENSIONS



Tony Bussey offers advice on ensuring that everyone is aware what pension they will ultimately receive and gives tips on how to maximise this amount.

The amount of state pension you will receive when you reach state pension age, currently 65 for men and 60 for women, depends on the number of 'qualifying years' you have paid or have been treated as paying national insurance contributions.

At present men need 44 qualifying years and women 39 to qualify for the single full basic pension, currently £82.05 per week. The state pension age for women will change between 2010 and 2020, so the number of qualifying years for a full basic pension will gradually increase to 44.

You will not get a full pension if you do not have enough qualifying years. If you retire with less than 25% of the qualifying years (currently 11 for men and 10 for women) you will not get any basic state pension at all.

By obtaining a pension forecast you will be told in today's money the state pension your contributions have already earned for you plus what your expected contributions will have earned you by state pension age. The forecast will also tell you if you can improve your basic state pension in any way.

The forecast can be obtained by telephoning 0745 300 0168 or by visiting [www.thepensionservice.gov.uk](http://www.thepensionservice.gov.uk).

The forecast will also show any 'additional state pensions' relating to SERPS (state earnings related pension scheme) and this is explained in the pension service leaflet which shows how the forecast works.

Gaps in your contribution history can arise for periods of unemployment or for years when earnings were beneath the NI threshold. You can pay voluntary contributions (current rate £7.35 per week) to turn non-qualifying years into qualifying years but there are time limits within which to make extra contributions.

Before making any payment, one needs to check that the records appear correct especially given that the Contributions Agency have lost individuals' records in the past, and also to ensure that entitlement to national insurance credits has been given where appropriate. It may be possible to get automatic credits for up to 5 years from the tax year you reach 60 if you are:

- a man (not self-employed)
- a woman born after 5.10.50

You may be eligible for home responsibilities protection if you are not working or your earnings are below £4,264 in 2005/06 and you are looking after:

- children (and you are the payee for child benefit)
- someone who is disabled or ill

Home responsibilities protection helps protect the basic state pension and builds up additional state pension. It works by reducing the number of years you need for a state pension. You do not have to claim it as it is given automatically.

Before 1977 married or widowed women could choose to pay reduced rate contributions. Reduce rate contributions do not count towards your pension.

However, it may be beneficial for such women to change to paying the full rate.

Since 6th April 2000 there is a 'nil' rate national insurance contribution band for employees earning between £82 and £94. These contributions even at a 'nil' rate count towards the basic state pension, therefore if there is flexibility in remuneration packages it may be worth setting salaries at the correct level.

If you are approaching retirement age and can afford to do so there is a government incentive to defer drawing a state pension for up to 5 years, by increasing the weekly rate you are entitled to draw for each year you defer. For example, if you become 65 now but defer for 5 years the weekly figure when you finally take the pension will be £124.75. Ignoring annual pension increases and the net present value of money adjustments, if a man survives until he is 80 he should gain by deferring, therefore perceptions of life expectancy are critical when making this decision.

This article cannot cover all the complexities that exist in the matter of pensions, but was written to remind people to take advantage of a valuable benefit which will come to us all at some time. Advice should be taken before paying voluntary contributions to fill any gaps and the state pension should be reviewed alongside other pension arrangements.

If you have any queries or need advice please contact us.

## *HIGH COURT leaves taxpayer out in the cold*

Many of you may have seen in the daily papers reference to the Arctic Systems case (Jones v Garnet) which the High Court recently decided in favour of the Revenue.

The case related to a Computer Consultancy Company set up by a husband and wife with each of them holding 50% of the shares. The husband in fact earned all of the income for the company with the wife carrying out a limited amount of secretarial work.

The company made £90,000 profit which was distributed by way of a low salary to each spouse and the remainder paid as dividends. The result was the income was split almost equally between husband and

wife thereby utilising both spouses' personal allowances and tax rates.

This sort of structure is standard practice and has been used by many of thousands of companies. The basis of the Revenue's case was an obscure piece of legislation whereby it was argued that by giving 50% of the shares to his wife he had made a settlement and under Tax law the income she received should be assessable on him, resulting in the loss of her allowances and lower rates of tax.

Where the husband and wife contribute equally to a business or receive rewards commensurate with the work they actually perform, there should be no problems. It is

only where one party carries out most of the work and receives less than a commercial salary for this, or where the spouse receives an unusually high return for little work that the problem may arise. Other factors to consider are whether the business has significant assets for which both spouses are entitled to a share of on disposal, or whether it can be demonstrated that both spouses have taken on risk for the benefit of the business.

Following the High Court decision professional views are still mixed, with some believing the particular facts of the case will limit the extent of future Revenue enquiries and others believing many smaller companies will be looked at.

If you think you are affected by this case we will be happy to discuss it with you.

## ACCOUNTANTS CONTRIBUTE TO ROYAL MAIL PROFIT!!!

Following the Royal Mail's announcement of its record annual profits of £537m we have been wondering how much is as a result of the additional charge that is made when a package is posted with insufficient postage. If something is sent to us with insufficient postage we have to pay the difference plus £1 administration charge before it can be delivered. Whilst the money involved is not significant the main problem is that it delays the delivery of the aforesaid package by what appears to be up to 2 weeks, which at best is a nuisance and at worst can create problems if deadlines are approaching, and probably increases the chances of it being lost by the Royal Mail.

The most common packages we get with insufficient postage are tax returns so here is a guide to what postage should be paid (according to our scales). The basic first class stamp covers packages which weigh up to 60g, for packages between 61g and 100g the first class postage is 46p.

	Weight
Basic self-assessment tax return (5 sheets -10 pages)	30g
Each extra sheet	6g
Guidance notes for the above	107g
Short form personal tax return	10g
Guidance notes for the above	60g

1. We do not need the guidance notes.
2. Allow for the weight of the envelope and any additional documents you may be sending.
3. If in doubt get the package weighed.
4. It is better to put more postage on.

## MAILING DETAILS

*We are always pleased to receive your comments or questions about 'Balancing Business' or any of the items mentioned in its editorial. If your mailing details are incorrect, if you have received duplicate copies, or you would like your name added to or removed from our mailing list, please contact Jackie Frost on 01206 715000 or by email: [jackie@bakerchapman.co.uk](mailto:jackie@bakerchapman.co.uk)*

### Baker Chapman & Bussey

3 North Hill, Colchester, Essex CO1 1DZ Tel: 01206 715000 Fax: 01206 715010  
Braintree House, 18 Bocking End, Braintree, Essex CM7 9AA Tel: 01376 559000 Fax: 01376 559005  
[mail@bakerchapman.co.uk](mailto:mail@bakerchapman.co.uk) [www.bakerchapman.co.uk](http://www.bakerchapman.co.uk)

The information in this newsletter is correct at June 2005. The contents of this newsletter are for guidance only and further professional advice should be obtained before acting on any information herein. ©Baker Chapman & Bussey 2005