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Balancing Business

News and information from Baker Chapman & Bussey

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Tax Efficient Childcare

Finding affordable childcare with qualified reliable staff is one of the main concerns of working parents. But the good news is the government's recent introduction of tax breaks for employees who need or want to continue working and have to pay for registered childcare.

The employer can either contract with a childcare provider direct or pay the employee in the form of vouchers.

The limit of expenditure for 2006/07 is £55 per week or £2860 per annum, and, for a higher rate tax payer this translates to tax relief of £1144 per annum.

Furthermore if you consider that the alternative is for the employee to pay for childcare out of net salary then, a higher rate tax payer has to earn £4766 to generate a net income of £2860.

The payment also attracts national insurance contributions relief and so, for the employer, the saving is the employer's contribution which is currently made at a rate of 12.8%. This translates to a potential saving of £366.08 per employee.

An interesting point to note is that whilst the relief is limited to one child per employee, it is not limited to one parent, and so, where both parents have employers willing to operate the scheme, the effective limit of expenditure is then raised to £110 per week or £5720 per annum. Therefore, where a husband and wife are directors/employees of their own company, the company could operate the scheme at a limit of £5720 per annum. Unfortunately, the tax breaks are only aimed at employees and so self-employed individuals cannot take the same advantage of the scheme.

The childcare must be registered, which means that employees cannot pay a relative or domestic partner to care for their children. Also the scheme must be open to all employees.

Government funding

In addition the government has increased the level of funding of nursery places for three and four year olds. At present funding is obtained for total of fifteen hours.

The funding commences at the start of the term after the child's third birthday and is only designed to cover normal term periods. Therefore anyone paying for full-time childcare will have the funding pro-rated accordingly.

For more information about this topic or any family financial matters, contact Jackie Frost by phone on 01206 715000 or email jackie@bakerchapman.co.uk.

You will also find helpful family finance information sheets on our website at www.bakerchapman.co.uk.

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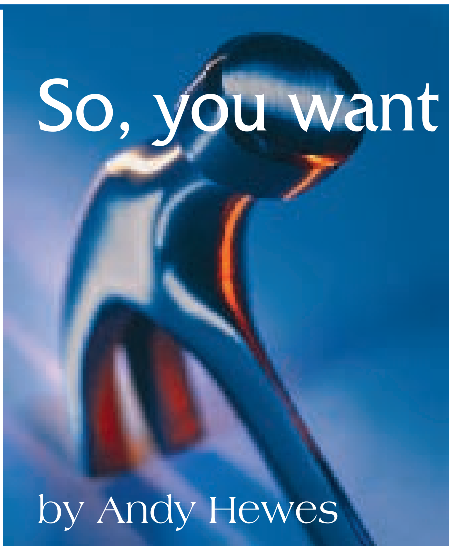

So, you want to be a property developer?

by Andy Hewes

Today more and more people are entering the property development market: some to build a new home and others to renovate and update an older house both with a view to selling for a profit. Some do so having taken their time to carry out background research, but others go into a significant financial commitment with surprisingly little thought. Andy Hewes sets out below some of the considerations.

As well as the practical issues surrounding obtaining planning permission, using builders, etc., the would-be developer needs to be realistic in terms of costings, in particular when needing to raise finance. The various tax aspects should also be considered, as the choice of the right trading vehicle can make a significant difference to the profit achieved.

With the above in mind, what follows here are some pointers that may be useful, but we must stress that full advice should be sought before any decisions are taken. Your accountant will know your financial situation and ensure you receive advice that is tailored especially for you.

Vehicle

If you build a house or buy an existing property to renovate and sell on, this is considered a trade and any profit made on the sale is taxable as income.

If you are already trading as a sole trader and pay higher rate tax, then sheltering the development profits in a limited company may be the way forward. Small limited companies normally pay tax at a rate of 19%. So for a proposed development profit of £50,000, the potential savings on tax could be as much as £10,500. It is worth mentioning that the costs of running a company are higher than those for a sole trader and therefore some of the tax savings would need to be offset against this, but the potential savings are still attractive.

Financing

There are a huge number of products in today's financial marketplace and making the right choice can be tricky. You will find that the cost of borrowing for property development will usually be higher than that of a buy-to-let mortgage, which, in turn, will be higher than a private mortgage.

If for tax reasons the trading vehicle is a limited company it is important to remember that the number of lenders prepared to lend to such an entity is significantly lower than those who will lend to individuals. Subsequently, choice and competition are usually less, so you should be prepared for any tax savings to be diluted by higher interest costs and charges on your loan.

Whilst the property market has been buoyant in recent times the developer should be realistic about the length of the project and accept that considerable time may elapse before the property is sold, during which loans will still need to be serviced.

Developing a plot

A new build is always 'zero-rated' for VAT, whether it is your own home or a home for re-sale. This means that whilst you do not charge VAT when you come to sell the house, you are free to claim back all of the VAT on materials 'ordinarily incorporated in a new house'.

Refurbishing a Property

The VAT rules and rates are dependent upon the type of property deal. With current high building costs, VAT and the potential recovery thereof should play a significant part in your initial tax planning exercise.

Normally anything classed as straightforward property refurbishment is exempt from VAT. This means that no VAT is charged on the sale and therefore no VAT can be recovered on any expenditure. Note how this differs from zero rated supplies for new homes where you are able to claim back the VAT you incurred on purchase of materials for the build.

There is always an exception to the rule, and in cases where the developer is already VAT registered there is the potential to claim back up to £7,500 of VAT on materials by taking advantage of the rather complex partial-exemption rules.

There are VAT breaks available when converting commercial properties to residential, buildings that have been empty and listed buildings, however the rules are complex and separate advice should be taken.

As inferred by the title of this article, this is only an introduction to an extremely complex area. As a firm, we cannot stress strongly enough that proper advice should be sought before any decisions are made. There can be few accountants that don't have horror stories from clients who have made decisions without doing the necessary research. Tax planning is just that – planning for the future and finding out about choices and obligations. It is always better to proceed with caution than to mop up the aftermath of rash decisions.

If you are planning to enter the property development market do come and talk to us. We have a wealth of experience in this sector that will help to provide you with guidance and information. We try to put complex taxation rules into plain English and will do our utmost to ensure you make good decisions for the future. Contact Andy Hewes on 01206 715000 or email, andy@bakerchapman.co.uk.

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Preparing for your Accountant

by Jackie Frost

In the Chancellor's Spring Budget he proposed moving the self-assessment tax return filing deadlines forward from 31st January to 30th September for manual returns and 30th November for electronic returns. This proposal is being challenged by the various accountancy bodies as not being practical. Whether or not the proposals are agreed it is a reminder that there are certain things clients can do to assist their accountant to turn work around efficiently, to meet deadlines and to minimise professional fees.

1. Provide information as soon as practical after the period end. In particular the client will find it easier to answer queries about more recent events, than trying to remember what happened up to nearly 2 years ago.
2. Inform your accountant of major or unusual events as they happen, to ensure you retain the right documents etc, as well as to help with any tax planning.
3. Provide as much original/copy documentation as possible
4. Summarise information in a logical and legible manner, cross-referencing to source documents where applicable.

For those clients that operate a business the following will help improve your records:

1. Keep your records up to date.
2 Total and balance your books.
3. Analyse payments and receipts.
4. File invoices in a logical manner.
5. Check your records against bank statements, supplier statements etc
6. Provide lists where relevant of stock, creditors including PAYE, VAT and suppliers.
7. Provide a list of any amounts owed to the business at the period end, including a note of any amounts which are unlikely to be recovered.
8. Provide details of assets acquired and disposed/scrapped.
9. Provide details of any new loans/HP agreements taken out.

10. Your accountant should be able to access data from most off the shelf accounting software packages. Therefore if your accounts are computerised you should discuss the most appropriate format with which to supply the detail.

If you would like any further guidance please contact Baker Chapman & Bussey where one of the partners will be happy to discuss your specific requirements.

Financial help just a click away

Have you ever wanted to calculate your mortgage repayments or the interest on a loan, or had a question about the amount of stamp duty payable on a transaction, or what your company car benefit will be? At last, you can do all these things quickly, reliably, and at the click of a mouse.

Our recently re-launched website at www.bakerchapman.co.uk is a resource that gives all our clients and contacts instant access to a mine of information. Both individual and business clients can benefit from online calculators, a tax calendar, email alerts of impending tax deadlines, and monthly newsletters that help you stay one step ahead of the tax man. If you need to complete forms for HM Customs & Excise or Companies House, just download them free from our online store. You can also access over 60 fact sheets with advice on topics like employment, pensions, capital taxes and business start-ups.

Every interactive part of the site is updated regularly so you can be sure you'll be looking at the latest information. To register, go to www.bakerchapman.co.uk and look for 'Have You Registered'. Registration consists of a few simple steps and we promise that once registered your inbox won't be bombarded with emails. Of course, we don't pass your details on to anyone else and you can choose to de-register any time. Oh, and best of all, it's completely free, so start clicking!

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SIMPLE TIPS ON INHERITANCE TAX PLANNING

As many of you may be aware, Inheritance Tax is assessable on all estates with a value over £285000 (based on 2006/07 levels). Gifts in the previous seven years are also counted. With property values increasing substantially over recent years, Inheritance Tax has become more and more important and here are eight simple ideas to mitigate the tax on your estate:

1. Annual Exemption

You can gift up to £3000 per annum to individuals. If this allowance is unused, you can carry forward for one year. This gift will not be included within your estate even if made within the previous seven years.

2. Small Gifts Exemption

You can gift up to £250 without this being counted in your final estate. There is no limit on the number of gifts.

3. Gifts on Occasion of Marriage

A parent can gift upto £5000, a grandparent £2500, and any other person £1000.

4. Normal Expenditure out of Income

The gift must be habitual, after tax and must leave enough income to maintain a normal standard of living. For people with substantial incomes, say £250k pa, gifts out of income can be potentially significant, e.g. £50k, as long as it can be demonstrated that the individual can live quite happily off the balance.

5. Charitable Gifts/ Legacies

Gifts made in the seven years prior to death, and via legacy are exempt.

6. Outright Gifts

Gifts of cash more than seven years prior to death are exempt. Care must be taken with gifts of assets as these could give rise to capital gains tax liabilities.

7. Effective Will Planning for Married Couples

Everyone has an exemption from IHT, currently £285,000, leaving one's entire estate to one's spouse, which would otherwise be free of tax in any event, has the effect of wasting an allowance, potentially giving rise of extra tax of up to £114,000 becoming payable on the second death. It is possible to structure wills so that this second allowance is not lost. Civil partnerships can now also tax plan in this way.

8. Spend It!

Whilst an extreme form of Inheritance Tax Planning, and obvious care would be needed with spending levels, it is worth considering that if you have an estate assessable to Inheritance Tax, there is an effective contibution of 40% towards your world cruise or new car by HM Revenue & Customs!!!

Welcome Andy!

Written by Andy Hewes, who joined Baker Chapman & Bussey's team at the end of 2005. Andy qualified as a Chartered Certified Accountant in 1994 and in 2000 was made a Fellow of the Association.

His specialisms include VAT especially with regard to property, Exit planning, Inheritance Tax planning, and general tax advice.

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

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