

## Newsletter for October 2007

### The sting in the tail for gifts

Gifts of assets are treated as transfers at market value so that a capital gain and potential tax liability can arise – what can be done to reduce or avoid a tax charge?

Is there a taxable gain? First the gain should be calculated to determine whether a tax charge arises. The market value of the asset needs to be calculated, original cost and taper relief can be deducted in the calculation – taper relief reduce the proportion of the gain taxable depending on the period the asset has been held. For business assets maximum relief is available after two years so that only 25% of the gain is taxable, for non-business assets the proportion taxable falls to 60% after 10 years. For assets held prior to 31 March 1982, the market value at that date can be used in place of cost and indexation allowance (inflation adjustment) is available from 1982 to 5 April 1998. The annual exemption, £9,200 in 2007/08 is then deducted and the resulting capital gain is taxable at your marginal tax rate.

If after all deductions a taxable gain still arises, what can be done? Married couples and civil partners can transfer part ownership of an asset to the other partner, though following the introduction of new anti-avoidance provisions care needs to be taken as this may be challenged if undertaken immediately prior to a taxable gift. For larger assets typically properties, the gift could be spread over several tax years to benefit from the annual exemption in each year and potentially lower rates of tax.

Capital gains can be deferred by investing in enterprise investment scheme (EIS) shares in the period one year before to three years after the gain arises. The gain is deferred until the shares are disposed of. In addition income tax relief is available at 20% of the amount invested up to £400,000. If the income tax relief on the EIS investment will exceed your tax liability for a year, consider spreading the investment over 2 or 3 tax years. EIS shares held for 2 years should also qualify for Inheritance Tax business property relief and deferred gains expire on death.

Valuations are critical in calculating the gain, both the value at the date of gift and where relevant at 31 March 1982. HMRC provides a service to agree valuations after the event so that tax returns can be submitted with valuations agreed to avoid uncertainty over tax payments and risk of challenge at a later date.

Care should be taken when making gifts of substantial assets and advice sought in advance rather than after the event when options to mitigate tax exposure may be more limited.

### Tax return deadlines – changes for next year

The deadline for submitting paper tax returns for HMRC to calculate the tax and collect tax under £2,000 through PAYE was 30 September. Next year the rules are changing so that paper tax returns will have to be submitted by 31 October, after that date all returns have to be submitted on-line in an attempt by HMRC to encourage electronic submission. Those who are used to submitting paper returns after 30 September will need to either ensure they have completed their return by 31 October or do (as HMRC would like everyone to do) file on-line. The days of submitting by hand on 31 January will be over after this year.

The shift towards on-line filing is moving on, having started with payroll taxes which will become mandatory for all from 2009/10, for VAT on-line returns will be required from 2010 for all but the smallest businesses. For corporation tax on-line filing comes in from 2011.

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## **New National Minimum Wage**

The minimum wages rate has been revised from 1 October and is now £5.52 per hour; for employees 18 to 21 £4.60 and for those aged 16 or 17 £3.40. The government has indicated that it will take an increasingly tough approach to compliance and there are increased fines for non-compliance.

## **Impending deadlines**

**19 October 2007** Tax and class 1B national insurance contributions due under PAYE Settlement Agreements have to be paid by to-day.

**20 October 2007** Date from which HMRC will charge penalties on late CIS returns.

**31 October 2007** Private companies with 31 December 2006 year-ends should file their accounts at Companies House.

**31 October 2007** Corporate tax returns for periods ended 31 October 2006 should be filed by concession no penalty is charged if the return is submitted by 7 November 2007.

For more information or to discuss how the ideas can be applied to your particular situation please contact Simon Bell by phone on 01376 571358 or email [simon.bell@sjbtax.co.uk](mailto:simon.bell@sjbtax.co.uk) . For copies of previous newsletters or details of our services please visit our website [www.sjbtax.co.uk](http://www.sjbtax.co.uk)

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