

White paper

Self Assessment Online Surgery with AccountingWEB's Rebecca Benneyworth

Tax Filing Q&A Summary

Introduction

At Sage we understand how demanding the run up to the online filing deadline for Tax returns is, and how important a helping hand in those final few days can be. That's why our Sage Support team stayed open for the final weekend prior to the filing deadline – right up to midnight on Sunday 31 January – to assist with your tax-related queries.

We even helped one of our accountants file their tax returns two minutes before the final midnight cut-off point!

But as well as speaking directly with you on the phone, one-to-one, we teamed up with AccountingWEB to open an exclusive, free **Self Assessment Online Surgery** – to offer live support in the crucial run-up.

Expert and well-respected tax author, Rebecca Bennyworth, was online throughout January, and during the final weekend on 30 and 31 January, to field all of your tax questions and post responses that we hope resolved issues for many of our customers.

In this white paper we have taken a selection of some of the questions posted on the online forum, including Rebecca's response, and split them across Personal Tax, Partnership Tax and Business Tax. Have a read and we hope you might find some useful information for next time round.

Please note: The information and advice contained in this white paper were provided by Rebecca Bennyworth as part of the free AccountingWEB.co.uk Online Surgery service offered by Sage in January. We will keep you informed regarding any future surgeries.

Personal Tax

Income of non-domiciled UK resident

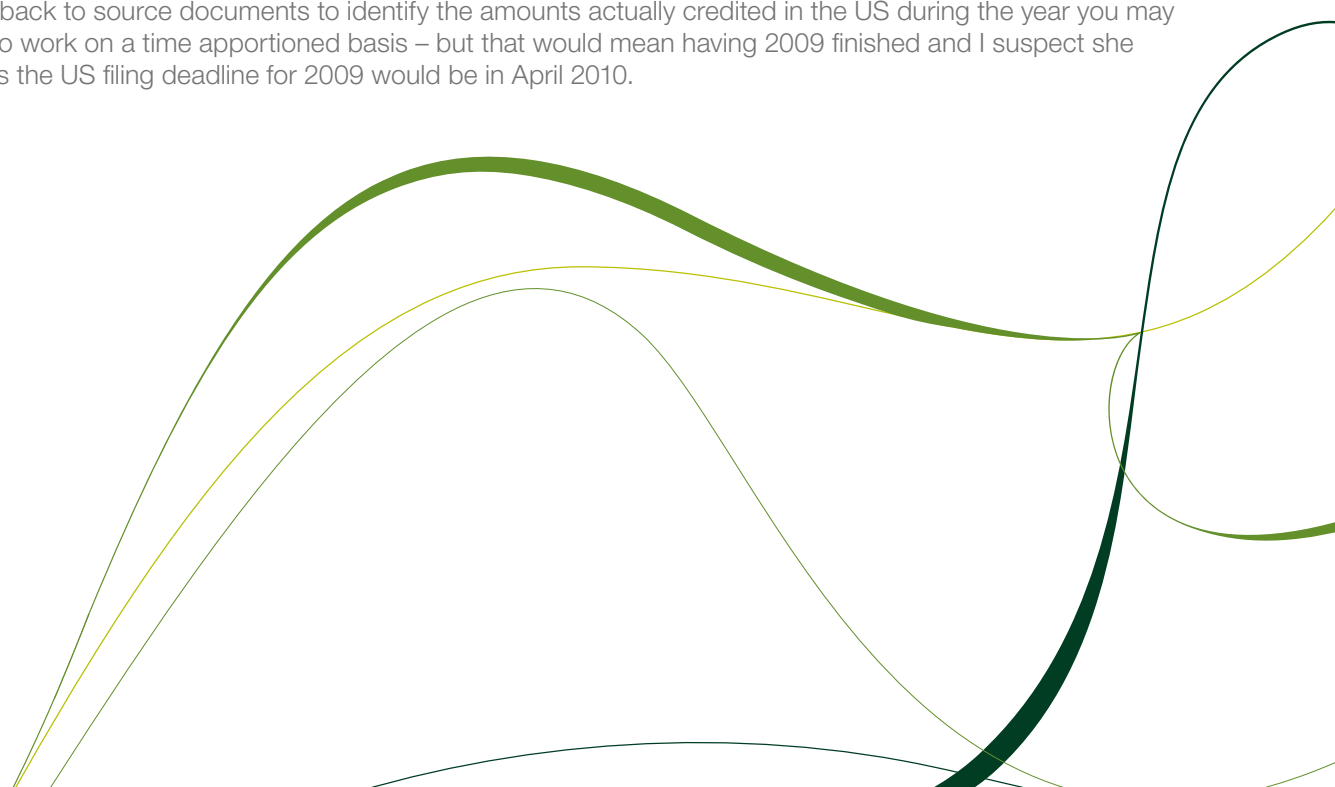
Hi Rebecca,

I have a query about the new rules regarding taxation of overseas income of non-domiciled UK residents. My client is from the USA and has been living here for around 5 years. She has taken exception to the fact that this year she needs to disclose her US income (around \$9,000 for 2008) even though she hasn't remitted any of it to the UK. As you know, US tax returns are prepared on a calendar year basis rather than 6 to 5 April and she says it would be too complicated to apportion her income for our tax year. Can we simply declare her 2008 US tax return information or should I insist on apportionment?

Thanks, Joanne

Hi Joanne,

I don't really see any alternative – you must report the income for our tax year and not the US tax year. If you can't go back to source documents to identify the amounts actually credited in the US during the year you may be able to work on a time apportioned basis – but that would mean having 2009 finished and I suspect she hasn't, as the US filing deadline for 2009 would be in April 2010.



Wear and tear allowance

Hi Rebecca,

I have a client who has UK property rental income and last year (the first year) elected to charge all the repairs and renewal costs rather than the 10% wear and tear allowance. This year he wants to change and elect to take the wear and tear allowance for 2008-09 and the future. Do we have to elect to do this before completing the 2008-09 tax return or can we complete the tax return in this way and send a letter albeit retrospectively to elect to do so, or complete the 2008-09 in the new way and amend both 2007-08 and 2008-09 tax returns?
Thanks, Margaret

Hi Margaret,

Can I just confirm your treatment last year. Repairs to property are nothing to do with wear and tear allowance, which is intended to cover the cost of replacement furnishings etc. When the property is purchased the electrical items, carpets and furniture should be treated as capital and then if the property is fully furnished – this means capable of occupation without further furniture – then you can claim 10% of the net rents as wear and tear. This has nothing to do with repairing the property itself. The alternative is to claim the replacement basis and claim when you replace any furniture items – this is the only option if the property is not fully furnished.

So that's the technical background. Now if you can, and wish, to claim wear and tear on last year, you have until 31 January to amend the return, and can file on the same basis this year.

Personal pension contributions

Hi Rebecca,

Can you advise please whether student loan repayment computations should take into account personal pension contributions? The HMRC Return Guide suggests that they should, but the SLC and NUS calculators, and the DirectGov website, don't.
Thanks, Sheldon

Hi Sheldon,

I have looked this up. If you want to check, the law is in the Student Loan Repayment Regulations 2009 (SI 2009 No 470). The computation of income is in Regulation 29, which covers amounts payable by assessment. The comp starts with total income and deducts a number of items, but the most relevant are: first £15,000, unearned income unless it exceeds £2,000, benefits in kind, losses relieved under S 64 ITA 2007, and at Regulation 29 (4) (j) - I quote: "deducting any amounts in respect of which relief is given under Part 4 Chapter 4 of the Finance Act 2004 (pension schemes etc)". So yes, you will deduct pension contributions that are allowed for tax.

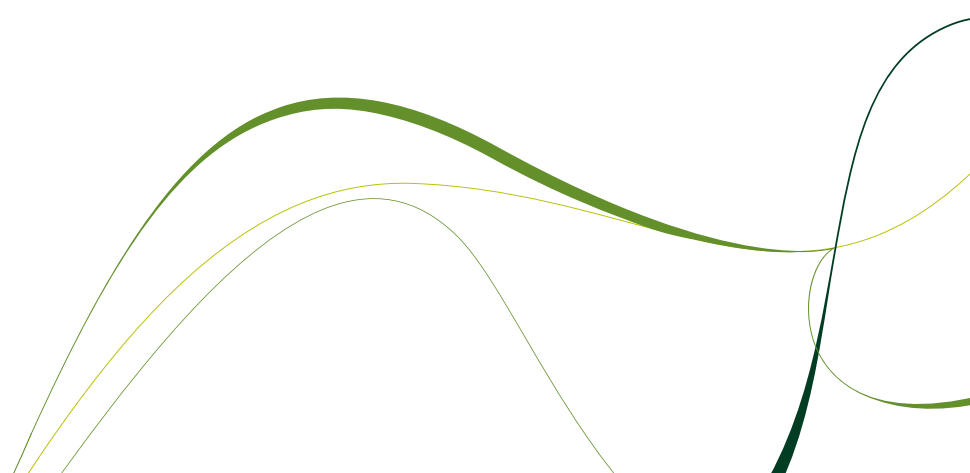
RBC tax for foreign income

Hi Rebecca,

How do I treat a client who has £171,600 foreign income and has nominated £75,000 that he will pay RBC of £30,000? What happens if he nominates £100,000; will it be the same RBC, and what happens next year?
Thanks, Ian

Hi Ian,

He can't nominate any amount other than the correct amount to meet the remittance basis charge, so nominating £100,000 is simply wrong - not possible. If he is liable at 40% and wishes to nominate income then the only amount he can nominate is £75,000. If he chooses to nominate gains then you'll need to work it back to cover the £30,000 exactly.



Partnership Tax

Obtaining UTRs for self-employed

Hi Rebecca,

I am trying to get a new UTR for a partnership set up from two self-employed businesses (husband & wife) and I am told by HMRC this can only be done by post rather than on-line or phone. Is this true?

Thanks, Stephen

Hi, Stephen

Yes this is true. They are getting quite cagey about issuing UTRs as this provides access to the tax system and they are concerned about fraud, so they need to make checks before issuing, which is why you have to do it on paper. Your best bet is to file form CWF1 (for Self-employed and Partnership) with Longbenton. It is probable that they will not get them before the end of January, but worth a try to get CWF1 in the post today. You will have to make a call at the end of the month about what to do regarding their own personal returns – at least they can pay any tax due and eliminate the penalty but no such opportunity for the partnership return – fines of £200 possible. If they asked for a UTR a while ago I think you would have reasonable excuse, but if this is the first they have said, unfortunately it will be a penalty. (You need partnership UTR to complete individual returns so they are really stuck without it.)

Partnership income

Hi Rebecca,

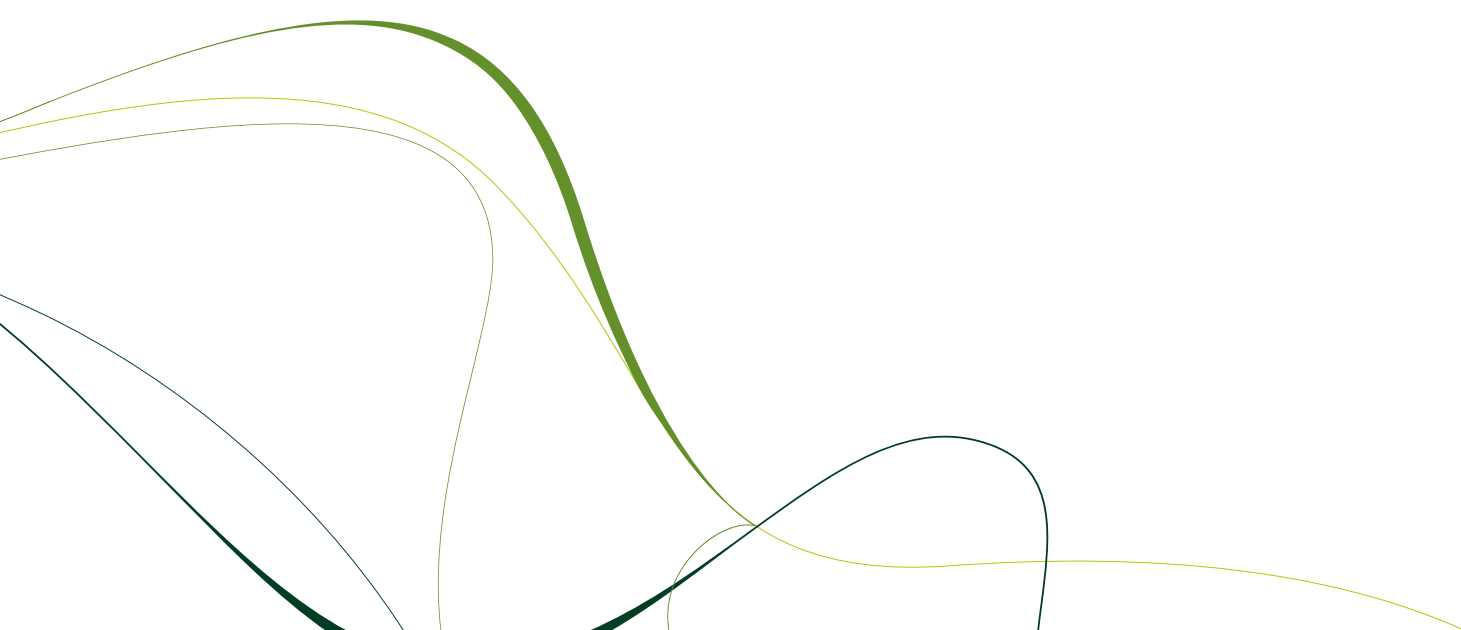
I have a father/son partnership trading for some years; year end is 30 September. The daughter joined the partnership on 1 October 2008. As I understand it, the daughter is not referred to on the partnership 2009 return, but does she have to include any partnership income on her 2009 return relating to her share of partnership income from 1.10.08 to 5.04.09?

Thanks, Derek

Hi Derek,

If the daughter is a partner during 08/09 tax year, her basis period starts from the date she joined the firm – 1 September 2008 – and runs to 5 April 2009. However, she takes no share in the profits for the year reported on the return – 30 September 2008. So the correct action is to show her as a partner on the partnership statement with a profit allocation of zero. Then on her personal return show the partnership pages, with box 7 showing zero (to agree with the partnership statement). Then box 8 on the partnership page of her return shows the 'adjustment', which should be an estimate of her share of the profits from the date she joined up to 5 April 2009.

If she does not have a UTR then you should make sure she has paid any tax that might be due on the profits for the 6 months and file late.



HMRC Gateway error

Hi Rebecca,

I am submitting a Partnership Tax return and receiving an error from the HMRC gateway regarding the following in my third party application: "Failed to LoadXML from the response (DealWithResponse)". My partnership Tax return has an attachment at the moment – its turnover is over £15 million so I have to file an attachment as per HMRC Partnership Tax Special Case 4. Please can you advise me how to proceed?

Thanks, Lisa

Hi Lisa,

It's likely that your attachment is over the permitted size. Check the guidance issued by your software provider regarding maximum file size. And if you're over this limit is there any way you can reduce the size of the attachment?

Basis periods

Hi Rebecca,

I am completing an SA return for a taxpayer. He was a partner in a business which had a year end 30 November 2007, 2008 and is now changing its accounting date to 31 March 2010. He became a partner 25 June 2007 and ceased to be a partner on 30 November 2009. His profit shares were:

25.06.07 to 30.11.07 £182,000

Year ended 30.11.08 £491,000

Period 1.12.08 to 30.11.09 £110,000 Estimated I calculate the profits assessable as: 2007/08 Profits 25.06.07 to 30.11.07 182,000 Apportionment 30.11.07 to 05.04.08 170,000 _____ 352,000 2008/09 Year ended 30.11.08 491,000 2009/10 Period to 30.11.09 110,000 Less Overlap relief 170,000 _____ TERMINAL LOSS 60,000

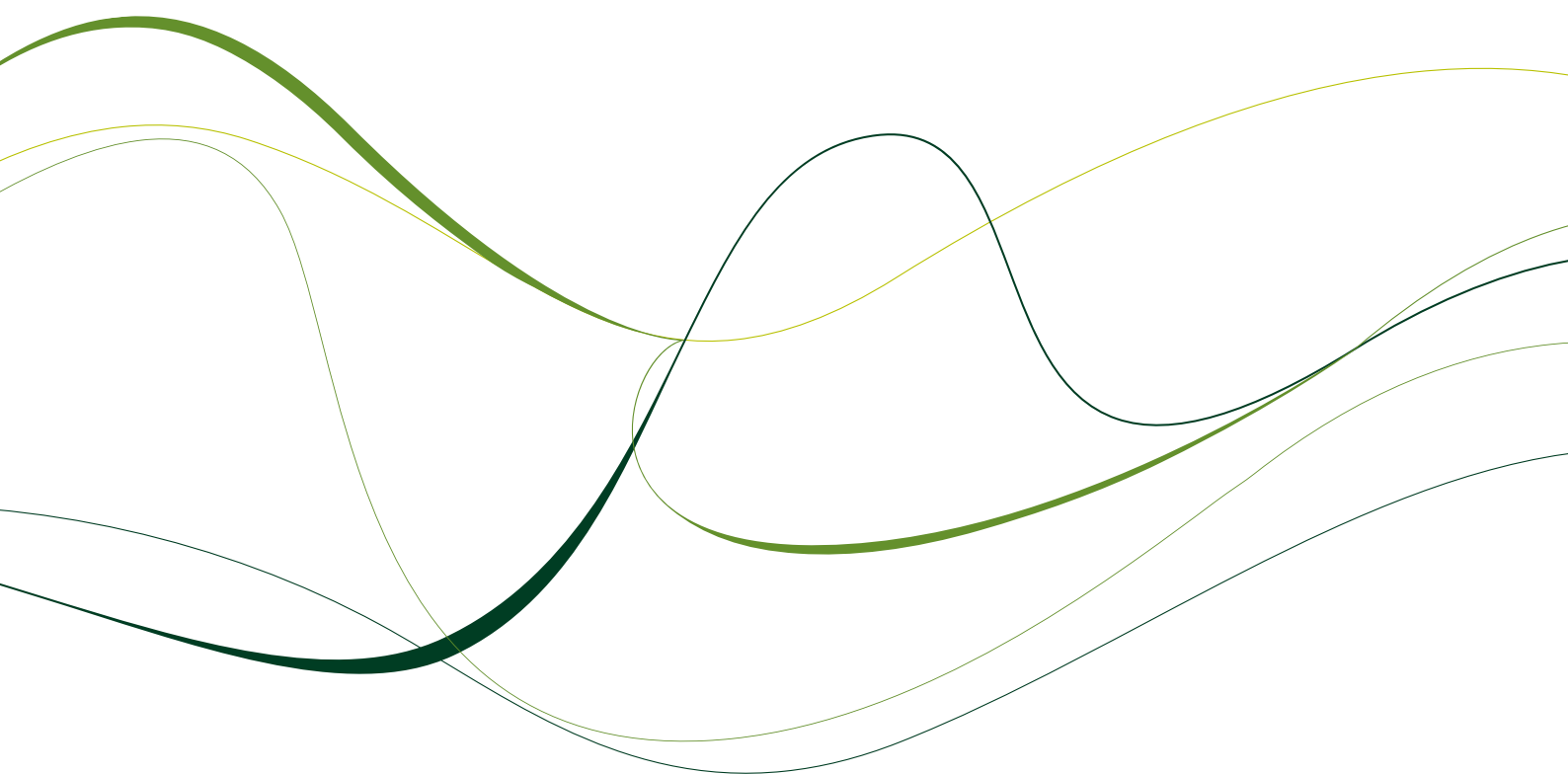
Carry back to 2008/09.

Needless to say the client is unhappy as he will be paying tax at 40% on overlap profits and will be unable to use his PA or any basic rate band for 2009/10. The client says it's unfair; as he will have been a partner for just over 2 years is there some election that can be made so that the profits are time-apportioned over the period of his partnership? After all, as he says, he has received income through the term

Thanks, Brian

Hi Brian,

As a partner, unfortunately he has no control over the basis periods as he is forced to accept the partnership accounting date. The rules are binding – there is no possibility of changing to an actual basis or electing for alternative basis periods unfortunately, and HMRC's view would be that he has paid tax on all the profits through the life of the business.



Business Tax

Annual investment allowance

Hi Rebecca,

My question relates to the annual investment allowance. I have read BN12 Budget 2008 notes and understand the treatment of plant and machinery post 1 April 2008 (CT) or 6 April self-employed /partnership. However, my query is in relation to what can be construed as a long life asset. I have been reading on some accounting forums that computers, digital cameras can be included. Is this correct? I would argue this would have a shelf life less than 5 years and therefore is not a long life asset. Thanks in advance for the clarification.

Thanks, Laurence

Hi Laurence,

Long life assets is a term used for assets which have an expected useful life of 25 years or more and affects things like ships, aircraft and similar. Very large items of machinery are also affected. So you should have no problems with any of the assets you have described – provided they are purchased for the business you can claim AIA on them and notionally “add” Nil to the pool. This is necessary so that any subsequent disposal proceeds are also allocated to the pool.

Capital allowances

Hi Rebecca,

During 2009/10 my self-employed client has purchased a car for £17,000. The emissions are 179 g/km, so I need to allocate it to the special rate pool and claim 10% allowances. However, the business use of the car is 75%. As I need to make a private use adjustment, do I separate the car from the other SR pool assets, thus eventually realising a balancing allowance/charge when the car is sold? (I know this is for 2009/10 but I need to know now to reduce the associated payments on account on the 2009 SATR.)

Thanks, Gina

Hi Gina,

The car must be kept in a separate pool, as it is a private use asset. So keep it separate and write down at 10%, then deduct the private use element as you said. So the capital allowances will be 10% of £17,000 = £1,700 x 75% business use = £1,275.

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