SELF ASSESSMENT PRESENTATION

27 June 2012

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TAX RATE AND ALLOWANCES

Income tax

	2011/12			2012/13			2013/14		
		Normal Rate	Dividend Rate		Normal Rate	Dividend Rate		Normal Rate	Dividend Rate
Basic Rate	0-£35,000	20%	10%	0-£34,370	20%	10%	0-£32,245	20%	10%
Higher Rate	£35,001-£150,000	40%	32.5%	£34,371-£150,000	40%	32.5%	£32,246-£150,000	40%	32.5%
Additional Rate	£150,000 and over	50%	42.5%	£150,000 and over	50%	42.5%	£150,000 and over	45%	37.5%
Savings 10% starting rate		£2,560			£2,710				

Personal Allowance	2011/12	2012/13	2013/14
Personal allowance Standard	£7,475	£8,105	
Born after 5 April 1948			£9,205
Personal allowance aged 65 – 74	£9,940	£10,500	
Born between 5/4/1938-6/4/1948			£10,500
Personal allowance 75 over	£10,090	£10,660	
Born before 6/4/1938			£10,660
Income Limit for age-related allowances	£24,000	£25,400	
Income Limit for Standard Allowance	£100,000	£100,000	£100,000

NICs rates and thresholds	2011/12	2012/13	2013/14
Class 1 NICs- LEL/UEL	£102/£817	£107/£817	
Class 2 NICs - Self-employed class 2 NICs (per week)	£2.50	£2.65	
Small earnings annual exception level class 2 NICs	£5,315	£5,595	
Volunteer development workers class 2 NICs	£5.10	£5.35	
Share fishermen class 2 NICs	£3.15	£3.30	
Class 3 NICs - Voluntary contributions	£12.60	£13.25	
Class 4 NICs 2011-12 annual profits below LPL £7,225	NIL		
2011-12 annual profits between LPL £7,225 - UPL £42,475	9%		
2011-12 annual profits above UPL £42,475	2%		
2012-13 annual profits below LPL £7,605		NIL	
2012-13 annual profits between LPL £7,605 - UPL £42,475		9%	
2012-13 annual profits above LPL £42,475		2%	

VAT registration and deregistration thresholds	From April 2011	From April 2012	From April 2012
VAT registration threshold	£73,000	£77,000	
VAT deregistration threshold	£71,000	£75,000	

Capital Allowances Rates	2011/12	2012/13	2013/14
AIA	£100,000	£25,000	£25,000
WDA Main Pool	20%	18%	18%
WDA Special rate Pool	10%	8%	8%
FYA	100%	100%	100%

Capital Gain Rates-individuals	2011/12	2012/13	2013/14
Annual Exempt amount	£10,600	£ 10,600	
Capital Gain Tax - up to the basic rate limit	18%	18%	
Capital Gain Tax- higher & additional rate	28%	28%	
Entrepreneurs relief	10%	10%	

Car Fuel Benefit	£18,800	£20,200	
Car Benefit Percentage-lower threshold 15%	125g/km	100g/km	

http://www.hmrc.gov.uk/budget2012/ootlar-main.pdf http://www.hmrc.gov.uk/budget2012/ootlar-rates.pdf

Proforma Income tax Computation for 2011/2012				
Tax year 6 April 2011 - 5 April 2012				
	Non-savings income	Savings Income	Dividends	Total
	£	£	£	£
Trading Profit (W1)	X			X
Less Trading Loss relief - b/ forward	(X)			(X)
	X			X
Employment income	X			X
Property Income	X			X
Dividends from UK companies x 100/90			X	X
Building society interest x 100/80		X		
Bank deposit interest x100/80		X		
Other interest - gross		X		
TOTAL INCOME	X	X	X	X
Less				
Qualifying interest	(X)			(X)
Trading Loss reliefs	(X)			(X)
NET INCOME	X	X	X	X
Less Personal Allowance	(X)			(X)
TAXABLE INCOME	X	X	X	X

Exempt income from income tax

- Interest or bonuses on National Savings & Investment Certificate
- Interest and dividends within an Individual Savings Account (ISA)
- Gaming, lottery and premium bond winning

Interest received Gross

- National Savings Bank interest
- Government Stock Interest (Gilts, Treasury Stock, Exchequer stock)

Qualifying interest is on a loan to purchase:

- an interest in a partnership or a contribution to the partnership of capital or a loan
- plant or machinery used in the business, by a partner
- plant and machinery by an employee if used in the performance of duty
- an interest in a close company
- loan to buy interest in employee controlled company
- loan to invest in a co-operative

Basis of assessments:

Trading profit	current year basis
Employment income (salary + benefits + bonuses)	actually received basis
Property income	accrued basis
Dividend	actually received basis
Interest income	actually received basis

W1

Net Profit per accounts (Income Statement)	X
Add Back: All the Debits that are disallowable expenses (capital expenditure)	X
Deduct: All the Credits that don't represent trading profit	
• Income assessed elsewhere (interest income, dividends)	(X)
• Non-taxable income (exempt)	(X)
Adjusted Profit	X
Less : Capital Allowances	(X)
Tax Adjusted trading Profit	X

ALLOWABLE AND DISALLOWABLE EXPENSES

http://www.hmrc.gov.uk/worksheets/sa103f-notes.pdf pages SEFN7; SEFN8
http://www.hmrc.gov.uk/factsheets/expenses-allowances.pdf

1. Capital expenditure including depreciation is not allowable
    - Repair to an asset is revenue expenditure and is allowable
    - Improvement to an asset is capital expenditure and is not allowable (ADD BACK)
2. Reliefs, such as qualifying loan interest payments are not allowable as they are dealt with as a deduction from total income (ADD BACK)
3. Patent royalties payable are an allowable deduction for adjusted trading profit
4. Irrecoverable Debts:
    - Trade debts write offs & allowances are allowable; tax treatment follows the accounting treatment
    - Non-trade write offs are not allowable (ADD BACK)
5. Entertaining and gifts
    - Entertaining is disallowed (ADD BACK), unless entertaining employees
    - Gifts to employees are allowable
    - Gifts to customers are only allowable if:
        1. They cost less than £50 per person per year, and
        2. The gift is not food, drink, tobacco or vouchers exchangeable for goods and services
        3. The gift carries a conspicuous advertisement for the business
           http://www.hmrc.gov.uk/guidance/480_chapter20.pdf
6. Subscriptions and donations
    - Trade or professional association subscriptions (membership fees) are allowable expense if published in the HMRC list of professional bodies http://www.hmrc.gov.uk/list3/
    - Charitable donations (Not made under Gift Aid)
        1. If it is wholly and exclusively for trading purposes (promoting business' name) and it is to a local charity then it is allowable
        2. National charity donations are not allowable (ADD BACK)
    - Charitable donations (made under Gift Aid) are not allowable (ADD BACK)
      http://www.hmrc.gov.uk/individuals/giving/gift-aid.htm#3/
    - Political donations are not allowable (ADD BACK)
7. Legal and professional charges
    - Allowable if connected with the trade and are not related to capital items
    - Specifically allowed by statute:
        1. Costs of obtaining loan finance
        2. Costs of renewing a short lease (50 years or less)
8. Interest (payable) paid on borrowings for trading purposes is allowable on an accruals basis therefore no adjustment is needed
9. Lease rentals on cars with CO_2 emission exceeding 160g/km
    - The disallowed amount is 15% of the leasing charges p.a.
10. Premium paid for the grant of a lease
    - The premium itself is disallowed as is any amortisation of the premium (ADD BACK)
    - The allowable amount is:

$$\frac{\frac{51-n}{50} \times \text{Premium}}{n}$$

n= number of years of the lease

11. Fines and Penalties are disallowed unless the fine is paid on behalf of an employee and incurred whilst on business

ALLOWABLE AND DISALLOWABLE EXPENSES

12. Private expenditure of the business owner:
    - If the owner uses a car in the business and 20% of the mileage is for private use then only 80% of motor expenses are allowable. (ADD BACK 20%)
    - If the owner provides an employee with a car and 20% of the mileage is for private use by the employee, then the full amount of motor expenses is allowable. (The employee is taxed on the private use under Employment Income)
13. The owner's salary, or drawings, or interest on capital invested in the business is disallowed (ADD BACK)
14. Interest paid on overdue tax is not deductible (ADD BACK) and interest received on overpaid tax is not taxable.
15. Employing family members – Only salary at the commercial rate for the work done is allowable. Excess salary is disallowed (ADD BACK)
    http://www.hmrc.gov.uk/manuals/bimmanual/bim47105.htm
    http://www.hmrc.gov.uk/manuals/bimmanual/bim47106.htm
16. Private use of goods and services – Disallowable expense (ADD BACK)
    If an owner removes goods from the business for his own use he must add back the item as a sale at market value, unless the owner accounts for the goods in the business then they need only add back the lost profit on the item
    http://www.hmrc.gov.uk/manuals/bimmanual/bim33630.htm
17. Pre-trading expenditure – allowable up to 7 years before the business commences to trade
    http://www.hmrc.gov.uk/manuals/bimmanual/bim46351.htm
18. Payments of the trader's income tax and NI Contributions are disallowed except for employer's NI contributions
19. Specific deductions: use of home: specific expenses BIM47820
    http://www.hmrc.gov.uk/manuals/bimmanual/bim47820.htm
    - Fixed Costs
      Insurance
      Council Tax - BIM46840
      Mortgage interest - BIM45650
      Rent - BIM38110
      Repairs and maintenance - BIM46900
    - Running costs
      Cleaning; Heat, Light and power; Telephone; Broadband; Metered water charges;
      BIM47825 - Specific deductions: use of home: examples
20. The general rule is that expenditure not wholly and exclusively for the purpose of the trade is not allowable.

CAPITAL ALLOWANCES

CAPITAL ALLOWANCES		MAIN POOL	Special rate POOL	Expensive Car 1	Short life Asset < 8yrs Asstet 1	(Business %) Private use Asset	Allowances
WDV b/f		X	X	X	X	X	
Additions qualifying for AIA							
- Long Life Asset	X						
- Integral Features of a building	X						
- Thermal Insulation	X						
AIA	(X)						X
	X		X				
Additions qualifying for AIA							
- Machinery	X						
- Plant	X						
AIA	(X)						X
	X	X					
Other Additions							
Motor Cars							
CO_2 emiss. 111-160g/km		X					
CO_2 emission >160g/km			X				
Disposals		(X)	___	___	(X)	___	
		X	X	X	X	X	
WDA x 18%		(X)					X
WDA x 18%/8%						(X)x business %	X
WDA x 8%			(X)				X
WDA - rectricted				{3000)			3000
Ballancing Allowance					(X)		X
Additions qualifying for FYA							
Motor Cars-							
CO_2 emission $\leq$110g/km	X						
FYA x 100%	(X)						X
	-	___	___	___	___	___	X
WDV c/fwd		X	X	X	-	X	

MOTOR CARS: SUMMARY TABLE	Main Pool WDA @ 18%	Special rate p Pool WDA @ 8%	Single asset Pool WDA @ 18%	Single asset Pool WDA @ 8%
Car acquired before 6/4/09 (1/4/09 for companies)				
Cost less than £12,000 no private use	X			
Cost £12,000 or more, no private use			X (max £3,000)	
Cost less than £12,000 private use -sole trader or partner only			X	
Cost £12,000 or more, private use -sole trader or partner only			X (max £3,000)	
Car acquired after 6/4/09 (1/4/09 for companies)				
CO_2 emissions 111-160g/km, no private use	X			
CO_2 emissions over 160g/km, no private use		X		
CO_2 111-160g/km, private use (sole trader or partner only)			X	
CO_2 over 160g/km, private use(sole trader or partner only)				X

AIA is allocated to assets included in the Special Rate Pool in priority to those included in the Main Pool
If the balance on the Main Pool +/or Special Rate Pool is $\leq$ £1,000 for a 12 month accounting period, the small pool WDA could be claimed. There is no AIA, WDA and FYA in the last year of trading. AIA and WDA can be time apportioned but FYA can never be time apportioned.

Property Income FA2011

The following Income is liable to assessment under Property Income:

- Rents under any lease or tenancy agreement
- Premium received on the grant of a short lease

1. Allowable deductions: Insurance; Agent's Fees; Other management expenses (cleaning expenses); Repairs (revenue expenditure); Interest on a loan to purchase the property;
2. Disallowable expenses: Improvements (capital expenditure)
3. Relief is available under the pre-trading expenditure rules (up to 7 years prior to renting)
4. A loss on a property letting business is carried forward to set against future property income only.

If a **residential property is let furnished**, a wear and tear allowance may be claimed in respect of the furniture.

Capital allowances are not available.

If W&T allowance is claimed, the actual cost of furniture is ignored, but an annual allowance is given of 10% of rents after reducing water rates and council tax paid by the landlord.

Furnished Holiday Lettings – special rules apply- The letting is treated as if it were a trade.

Capital allowances are available on furniture instead of the 10% wear and tear allowance.

The income qualifies as relevant earnings for pension relief.

Capital gain tax rollover relief, entrepreneurs' relief and relief for gifts of business assets are available.

If a loss arises on a FHL, the only trade loss relief available is carry forward loss relief by deduction from the first available future profits of the same Furnished Holiday Letting business (FHL losses must be kept separate).

Rent a room relief - gross rents up to £4250 are exempt

The exemption may be ignored if the taxpayer wants to generate a loss where expenses >income, or where actual expenses >£4250

If Gross rent > £4250 pa, the tax payer may choose to assess as follows:

1. Ordinary calculation

Gross Rent	X
Less Expenses	(X)
Less Wear & Tear Allowance	(X)
Property Income	X

2. Alternative calculation (election)

Gross Rent	X
Less Rent a room relief	(X)
Property Income	X

The election must be made for 2011/12 by 31 January 2014 and stays in force until it is revoked.

Lease premium on Grant of a Short Lease (50 years or less)

1. Part of the premium is assessed on the **landlord** as property income, the remainder is treated as a capital receipt. The amount of the premium assessed as property income is:

$$P \times \frac{51 - n}{50}$$

P= Total premium
n= duration of the lease in years

2. Where a trader (**tenant**) has paid a premium for a short lease he may deduct the following annual amount against his Trading Profit in each year of the lease.
This is in addition to any rent paid:

$$= \frac{\text{Property income assessed on landlord}}{\text{Life of lease}} \text{ pa}$$

Chargeable gains for individuals FA2011

Computing a Gain or Loss

Proceeds of sales	X
Less: Incidental cost of disposal	
(Valuation fees; Estate agency fees; Advertising costs; Legal costs)	(X)
Net Proceeds	X
Less: Allowable costs	
(original and incidental costs of acquisition; enhancement (capital)expenditure)	(X)
Capital Gain/ Loss in tax year	X/(X)
Less: Capital Losses in tax year	(X)
Net Capital Gain in tax year	X
Less: Capital Losses brought forward	(X)
Net Capital Gain	X
Less: Annual Exemption	(£10,600)
Taxable Gain	X
CGT x 10%, 18%, 28% Due (2011/12) 31/01/2013	X

- Gains on **most wasting chattels** (assets with an estimated remaining useful life of 50 years or less) are exempt and losses are not allowable (cars are always exempt).
- Gains on **non-wasting chattels** sold (gross) for less than £6000 are exempt even if the capital allowances were claimed.
- Gains on **Principal Private Residence** - PPR are exempt from CGT, but the exemption may be restricted because of periods of non-occupation or because of business use.
  An individual may be deemed to occupy his principal private residence. Periods of exemption for gains are: a) last 36 months of ownership; b)any period of absence up to 3 years (for any reason)- restrictions apply; c) any period of employment abroad; d) up to 4 years work elsewhere (UK)
  Last 36 months of ownership are always treated as a period of occupation.
  This rule doesn't apply where part of the residence is used exclusively for business.
- **Letting relief** is available to cover any gain not covered by PPR if:
  - owner is absent (not covered by deemed occupation rules) and property is rented out
  - part of the property is rented out, the remaining part being occupied by the tax payer

  Letting relief is the lowest of: a) PPR relief given; b) the gain attributable to letting; c) £40,000;
- **Capital Losses**
  Current year losses must be set off against gains in full even if this reduces net gains below the annual exempt amount and any excess is carried forward
  Losses brought forward are only set off to bring down gains to the level of the annual exempt amount.
  Transfers between spouses/civil partners do not give rise to a chargeable gain or allowable loss.

$$\text{cost on a part disposal} = \text{cost} \times \frac{A}{A+B} = \frac{\text{value of part disposed of (proceeds before deducting incidental costs)}}{\text{value of the part disposed of + market value of the remainder}}$$

- **Distraction or Loss of an asset**
  If all the proceeds are applied for the replacement of the asset within 12 months, any gain can be deducted from the cost of the replacement asset.
- **Damage to an asset**
  If an asset is damaged then the receipt of any compensation or insurance monies received will normally be treated as a part disposal.
  If all the proceeds are applied in restoring the asset the taxpayer can elect to disregard the part disposal. The proceeds will instead be deducted from the cost of the asset.

Loss reliefs - Individuals FA2011

Loss relief: Net income = total income - loss

Trading losses may be relieved against:

- Future trading profits - Carry Forward – against the first available profits of the same trade(2012/13),
  Carry forward trade loss relief is the only trade loss relief which applies to furnished holiday lettings
  On a cessation carry forward loss is only possible if an unincorporated business is incorporated (including salary, interest and dividends) but terminal loss relief may be due instead.

- against total income of:
  Current tax year (2011/12)
  Proceeding tax year (2010/11)
  Then carry forward any remaining loss (2012/13....)
  A claim for a loss in 2011/12 must be made by 31 January 2014.
  Personal allowance may be lost as a result of a claim.
  Once a claim has been made in any year, the remaining loss can be set against net chargeable gains.
  The trader may adjust the size of loss relief claim by not claiming all the capital allowances he is entitle to.
  There is a limit of £25,000 per tax year on the amount of loss relief that a trader can claim against general income if he is a non-active trader. A non-active trader is one who spends less than 10 hours a week personally engaged in trade activities. This restriction applies also to early years trading loss relief

- against capital gains.
  The trading loss is first set against general income of the year of the claim, and only any excess loss is set against capital gains. The taxpayer cannot specify the amount to be set against capital gains, so the annual exempt amount may be wasted.
  Taxable Gain = Capital Gain – Losses - £10600

Opening Year Loss Relief - against total income
A loss in the overlap period is treated as a loss for the earlier tax year only.
Early trade losses relief is available for trading losses incurred in the first 4 tax years of a trade. So, it enables the losses to be carried back for 3 years (FIFO 2008/09; 2009/10; 2010/11).

Terminal trade loss relief - on cessation - carry back against trading profits only. Losses can't be carried forward
It allows a loss arising in the last 12 months of trading to be carried back for relief in the previous 3 years, taking the latest year first.

The actual trade loss for the tax year of cessation including unrelieved overlap profit (from 6 April to the date of cessation)	X
Add	
The actual trade loss for the period from 12 months before cessation until the end of penultimate tax year	X
=	
Terminal trade loss	X

Opening year rules for self-employed and partnerships FA2011

The first year- Actual basis

The basis period for the first tax year runs from the date the trade starts to the next 5 April or to the date of cessation if the trade does not last until the end of the tax year.

The second year

Is there a period of accounting ending in the 2nd tax year?

↙ Yes ↓

How long is the period of accounting

↙ less than 12 months ↓

Basis period is the first 12 months of trade

↘ more than 12 months ↓

Basis period is 12 months to accounting date in 2nd year

↘ No ↓

Basis period runs from 6 Apr to 5 Apr in 2nd tax year

The third year

Is there accounting date falling in the second year?

↙ yes ↓

Basis period is the 12 month period of account ending in the 3rd tax year (current year basis)

↘ no ↓

Basis period is the 12 months to the accounting date falling in the 3rd tax year

Later tax years

The normal current year basis of assessment applies

The final year

If the final year is the

↙ 1st yaer of trading ↓

Basis period is the whole lifespan of the trade

↓ 2nd year of trading ↓

Basis period runs from 6 Apr at the start of the 2nd year to the date of cessation

↘ 3rd year or a later year ↓

Basis period runs from the end of the basis period for the previous year to the date of cessation

Change of accounting date FA2011

- *One set of accounts* covering a period of:
  1. less than 12 months ending in a tax year
     The basis period for that year is always the 12 months to the new accounting date
  2. more than 12 months ending in a tax year
     The basis period for that year ends on the new accounting date. The overlap relief is available.

- *Two sets of accounts* ending in the tax year
  The basis period for that year is the period to the new accounting date

- *No set of accounts* ending in tax year
  The basis period for that year is the 12 months to the new accounting date

Overlap profits may either be created or relieved on a change of accounting date.
Overlap profits created must be added to any overlap profits that arose when the business began.
Overlap profits may be relieved if more than 12 months worth of profits would otherwise be taxed in a year following a change of accounting date. On cessation any remaining overlap profits are relieved

Conditions for changing the accounting date
1. Notify HMRC of the change by 31 January, following the tax year in which the change is made
2. The period of account resulting from the change must not exceed 18 months.
   If it exceeds 18 months, then two sets of accounts will have to be prepared
3. There must have been no previous change of accounting date in the last 5 years unless it is for genuine commercial reasons

EXEMPT BENEFITS FA2011

1. Canteen available to all staff
2. Luncheon vouchers up to 15p per day
3. Qualifying removal expenses up to £8000
4. Car parking spaces near place of work
5. Workplace nurseries (crèches)
6. Childcare vouchers up to £55 per week for basic rate taxpayers; £28 p/w for higher rate taxpayers; £22 p/w for additional rate taxpayers and any related administration costs
7. Contributions by an employer to an approved pension scheme
8. Workplace parking for bicycles plus a tax free cycling allowance of 20p per business mile
9. Provision of a mobile telephone for private use (one per employee)
10. Christmas parties etc for staff (up to £150 per person per year) if exceeded the full amount is taxable
11. Sport and recreational facilities available generally for the staff. Vouchers are exempt but membership fees for sports clubs are taxable
12. Outplacement counselling services to employees made redundant. The services can include counselling to help adjust to the loss of the job and to help in finding other work, ie retraining courses up to 2 years
13. Contributions towards additional household costs (such as light and heat) incurred by an employee who works at home up to £156 for the tax year 2011/12 (£3 per week), up to £208 for 2012/13 (£4 p/w), if higher evidence must be provided by the employee to justify the expense.
    http://www.hmrc.gov.uk/manuals/eimanual/eim01476.htm
14. Long service awards up to £50 per each year of service (maximum 20 years)
    http://www.hmrc.gov.uk/paye/exb/a-z/l/long-service.htm
15. Use of Employer bicycles if used by employees to and from work
16. Provision of eye care tests and/or corrective glasses for employees using VDU's (if paid directly, by reimbursement to the employee or by providing vouchers)
17. Incidental overnight expenses provided by the employer for overnight stays from home.
    Up to £5 per night (UK) and up to £10 per night (overseas)
    http://www.hmrc.gov.uk/paye/exb/a-z/i/incidentals.htm
18. Entertainment provided to employees by genuine third parties (eg seats at sporting events)
    http://www.hmrc.gov.uk/manuals/eimanual/eim21836.htm
19. Gifts of goods from third parties if the amount inc VAT is £250 or less. If it exceeds the full amount is taxable, not just the excess. http://www.hmrc.gov.uk/manuals/eimanual/eim21715.htm
20. Awards under staff suggestion schemes. If the award is not more than £25 or is only made after a decision is taken to implement the suggestion. If an award exceeds £5000, the excess is always taxable
    http://www.hmrc.gov.uk/paye/exb/a-z/s/suggestion-schemes.htm
21. Assets or services used in performing the duties of employment when private use is insignificant
22. Up to £15,000 a year paid to an employee who is in full time course lasting at least a year(20weeks) If the £15000 limit is exceeded, the whole amount is taxable
23. Work related training
24. Air miles or car fuel coupons obtained as a result of business expenditure but used for private purposes
25. The cost of work buses (12seats or more) and minibuses (9-12 seats) or subsidies to public bus services
26. Transport/overnight costs where public transport is disrupted by industrial action
27. Employer provided uniforms which employees must wear as part of their duties
28. Private medical insurance premiums paid to cover treatment when the employee is outside the UK in the performance of his duties. Other medical insurance premiums are taxable
29. Cheap non-qualifying loans that don't exceed £5000 at any time in the tax year
30. Job related accommodation
31. Meals or refreshments for cyclists provided as part of official 'cycle to work' days

Taxable Benefits FA2011
Benefits assessable on all employees

a) Vouchers exchangeable for goods and services unless specifically exempt
the first 15p per working day of meal vouchers (luncheon vouchers) is not taxed

b) Living accommodation

1. There is no taxable benefit if the accommodation is job-related
   - where it is necessary for the proper performance of the employee's duties (e.g caretaker); or
   - for better performance of the employee's duties and (for that type of employment) it is customary for employers to provide living accommodation (e.g hotel worker) or
   - where there is a special threat to the employees security and he resides in the accommodation as part of special security arrangements

2. If the accommodation is not job-related than the benefit is the higher of
   - the accommodation's annual value, and
   - the rent actually paid for it by the employer (if the property is rented)
   - the benefit is reduced by any rent or contribution paid by the employee

3. There is an additional benefit where the cost of providing accommodation is greater than £ 75,000
   - (cost of providing accommodation - £75000) x the official rate of interest
   - The cost of providing accommodation = the purchase price + expenditure on improvements incurred before the start of the tax year

4. If the employer bought the accommodation more than 6 years before first providing it to the employee, the property's market value when first occupied by the employee is used in the calculation instead of the purchase price.

Taxable Benefits FA2011

Benefits assessable on employees earning £8500 or more and directors (P11D)

a) **Principles**

- The amount assessed is generally the cost of providing the benefit.
- Where in-house benefits are provided (free air travel for employees of an airline company) the amount assessed is the marginal cost incurred by the employer

b) **Expenses connected with living accommodation**

- Expenses such as lighting and heating are taxable on the employee if they are paid by the employer
- When the accommodation is job related, the taxable limit is 10% of other employment income. In addition the payment of council tax by the employer is an exempt benefit if the accommodation is job related

c) **Use of assets**

Amount assessed is the higher of:

- 20% x market value of the asset when first provided
- rental paid by the employer (if asset is rented)

d) **Gifts of assets**

- If an employee is gifted a new asset, he is taxed on the cost of the asset
- If an employee is gifted an asset that has previously been used, he is taxed on the higher of:
    - the market value of the asset when given to him
    - the market value of the asset when first made available to the employee less the benefit assessed on the employee during the time he had the use of it
- The above rule does not apply to the gift of a motor car or van, where the benefit is simply the market value of the asset when gifted

e) **Motor car**

- If there is *no private* use of the car there is no taxable benefit
- The benefit is a % of the car's list price which includes the list price of any accessories fitted to the motor car. The list price is reduced by any capital contribution from the employee subject to a maximum of £5000.
- There is a special rule for classic cars older than 15 years, then market value over £15,000 is used instead of list price
- *Percentage:* (lower threshold for 2011/12 is 125g/km; for 2012/13 is 100g/km)

co2 emmission	**petrol**	**diesel**
_< 75g/km	5%	8%
76-120g/km	10%	13%
120-125g/km	15%	18%

>125g/km add an additional 1% for every complete 5g/km above 125g/km. Maximum % petrol 35% diesel 35%

- *Reductions:* the car benefit is proportionately reduced if:
    - a motor car is unavailable for periods of at least 30 days of the tax year and
    - where the employee makes a contribution to the employer for the use of the motor car.
- *Second motor cars*: Where more than one motor car is made available to an employee, the benefit of each motor car is simply based on its list of price and CO2 emissions
- The use of <u>*Pool Cars*</u> (by more than one employee, kept at workplace) does not result in a company car benefit

Taxable Benefits FA2011

Benefits assessable on employees earning £8500 or more and directors (P11D)

f) **Fuel provided for private use**

- The car benefit does not take into account of fuel provided for private use
- The amount of fuel benefit for 2011/12 = £18800 x the % used for calculating the car benefit.
  (fuel benefit for 2012/13 is £20,200 x %)
  The fuel scale charge is reduced proportionately where private use fuel is withdrawn (and not reintroduces during the year) or the car is only given part way through the tax year
- No reduction is made if the employee contributes towards the cost of petrol for private use.
  If he pays for all fuel used for private motoring the charge is cancelled.

g) **Vans and heavier commercial vehicles**

- Where an employee uses an employer's van for journeys between home and work and other private use is insignificant there is no benefit
- where private use is not insignificant the tax charge is £3000 p.a.
- An additional charge is made for fuel provided for unrestricted private use = to £550 p.a. (Same for 2012/13)
  http://www.hmrc.gov.uk/budget2012/car-van-fuel-charge.htm
- Both benefits are time apportioned if the van is unavailable to the employee for 30 days or more during any part of the tax year.

h) **Beneficial loans**

- A beneficial loan is one made to an employee below the official rate of interest
- The benefit is the interest on the loan at the official rate less any interest actually paid by the employee
- There is no benefit if the loans don't exceed £5000 in total at any time in the tax year.
  If it exceeds the benefit arises on the whole loan
- The benefit is calculated using:
  1. *Average method* - it uses the loan outstanding at the beginning and the end of the tax year.
     If it is taken out or paid back during the tax year, that date is used instead of the beginning or end of the tax year
  2. *Accurate method* - This method calculates benefit day by day on the balance actually outstanding.
     Either the taxpayer or HMRC can decide to use the accurate method)
     Benefit= Interest at the official rate - Interest Payable

i) **Scholarships** given to members of an employee's family. The employee is taxed on the cost unless the scholarship fund's or scheme's payments by reason of people's employments are not more than 25% of its total payments