

Article topic: Tax Planning

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How to live like an MP and keep your conscience!

Some may think it hypocritical, others won't be able to read on quickly enough. But, once your anger has simmered over MPs' manipulation of the expenses rules, it is worth reflecting on whether you can benefit from some of the 'techniques' used.

The expenses scandal has highlighted a number of opportunities which taxpayers can use, quite legitimately, for their own financial gain. The main difference is that you benefit from a lower tax bill rather than a full reimbursement of expenses – although with higher rate tax at 40%, rising to 50% from next year, the savings could be considerable.

Some of the key ideas are:

1. Main home 'flipping'

It is a long established principle that home owners in the UK can sell their main residence free of Capital Gains Tax, but they normally have to pay tax on the sale of additional properties. Rules introduced in the last recession, although designed to help those who had to move around the country to find work, can be more widely used to the advantage of people with more than one residence. The effect is that more than one property can be sold free of Capital Gains Tax. In fact, the number of properties is not limited!

2. Mortgage interest

If you have a home encumbered by a mortgage and unrelated business interests – including rental property – then it may be possible to claim tax relief on all or part of the main home mortgage. This is in addition to the tax relief obtainable on the borrowing secured within the business itself. This can have a significant impact on the level of tax payable, whilst not impacting on overall cashflow.

3. Working from home

If you are working from home, whether you are employed by another organisation or running your own business, it may be possible to claim a significant proportion of the household running costs against your income. Eligible costs could include part of mortgage interest, rent, council tax, home insurance, repairs and energy bills...but not duck houses! Contrary to popular belief, this can be achieved without any impact on the Capital Gains Tax exemption of the main home (as outlined above).



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4. Pay relatives a salary

Business owners can pay a salary to adult relatives, who genuinely work in the business and do not have other employment. This will help them to use up their lower tax allowances and reduce the overall level of tax payable. From next year, this could save as much as 50% in Income tax.

Act now!

With personal tax rates going up, the value of even the simplest of tax planning strategies is increasing. MPs may, inadvertently, have given the public a steer in the right direction!

For more information on corporate tax planning issues, please speak to a member of the Tax Planning team.

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