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## Dear Client,

Welcome to our monthly tax newsletter designed to keep you informed of the latest tax issues.

We hope you enjoy reading the newsletter and remember, we are here to help you so please contact us if you need further information on any of the topics covered.

Best wishes

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## IS IT A REPAIR OR AN IMPROVEMENT?

If you purchase or refurbish a business property it has long been an issue that one needs to consider how much of the expenditure is a repair (then deductible from the relevant income) as opposed to an improvement (then treated as capital expenditure).

Often we are able to negotiate a proper apportionment of the expenditure as between the two heads, but sometimes it proves very difficult. It should now be easier, however, following a recent Tax Tribunal case where it was held that expenditure on a let property was, in the particular circumstances, wholly of a repair nature. All the expenditure was therefore deductible against the rent.

This decision could well be appealed against, but interestingly the Tribunal effectively warned off HMRC trying to appeal as it said that as far as they were concerned the decision was supported by what HMRC has to say about the repair vs improvement issue in their property income manual.

We will take this important case into account when determining whether there should be full tax relief in the future.

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## MORE NOTICE OF CODING ERRORS

There have been plenty of figures bandied around as to how many Code Numbers are wrong as a result of errors made by the tax authorities. Whatever the exact figure may be, it is clearly significant and shows no sign of being reduced to any meaningful degree.

One annoying aspect of this is that if you have more than one job, the policy is to bring into account ALL taxable benefits within the main job's Code Number, even where the benefit actually relates to a different job. That seems bizarre and surely itself causes queries to be raised.

Of arguably more importance is that HMRC have now admitted that their PAYE coding processes cannot identify items which have been included in a previous Coding but which should later on be removed. The prime example of this is, say, where you have private health cover provided by your employer and the tax payable on that benefit is collected by reducing your Code Number. If that benefit stops HMRC will be aware of that as the annual form P11D will simply not show any entry for it. However, HMRC will not automatically increase your Code Number and we have to tell them what to do ourselves. Please therefore keep us right up to date when your remuneration package changes in any way. Not surprisingly, HMRC do seem able to reduce a Code Number when they find out from the form P11D that a benefit has increased in value!.

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## VAT REFUNDS

If you normally have a net VAT payment to make each quarter, but suddenly find that for a particular period there is a net repayment due to you, HMRC understandably runs certain checks. If that was not possible to finalise internally, they would want to check the validity of the claim by way of a visit to your premises. It has been reported that a visit is unlikely and instead a letter is likely to be sent asking for certain information to back-up the claim to a net VAT repayment.

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## MORE PENSION SCHEME CHANGES

In the last edition we mentioned that from 6 April 2011 the current requirement to purchase an annuity by the age of 75 will stop, and that in the meantime the age will increase to 77.

We now have some more information to enable decisions to be made, although there are still some unanswered questions. What we now know as likely to be the structure is summarised below:

- Your personal choice to buy an annuity, or leave the pension fund invested and take a capped drawdown as income or a flexible drawdown as income.
  - Flexible drawdown will allow you to take as much as you like net of income tax, but with the requirement to secure a minimum income from part of your fund.
  - If by the time of your death you have not bought an annuity, the current tax charge on the fund passing to your beneficiaries is potentially at 82%. This will reduce to 55%.
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## OVERPAYMENT RELIEF

There can be instances where we review your past tax affairs and lodge a claim to a tax refund as a result of a change in tax law or practice.

The way this can be done has recently changed, and in particular one can now only go back four years instead of the previous six years. The name of the claim has been changed as well - from an error or mistake claim to overpayment relief. One situation where it is not possible to make a claim is where the overpayment of tax arises due to a change in law or practice, but the tax was originally calculated in accordance with the practice prevailing at the time. HMRC have now accepted that this restriction can only apply where the UK is entitled to impose it in accordance with its EU treaty obligations. This certainly provides more scope for us to look at making a claim in appropriate circumstances.

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## TAX HELPLINE FOR AGENTS

In acting for you on your tax affairs, one of the problems encountered in recent years is the difficulty in getting put through by telephone to someone at HMRC who can access your tax file and deal with our query - no matter how simple that query may be. Matters have improved with the introduction of exclusive numbers for agents, manned by non-call centre personnel who do have a working knowledge of the tax system. We are even happier now that any queries can be handled quickly, as a single agent dedicated line has been introduced. The much-maligned customer focus is certainly working well in this respect.

Please contact Alan or Gillian on 01302 311777 or email [info@ar-accountants.co.uk](mailto:info@ar-accountants.co.uk) if you would like to discuss any of the issues raised.

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