

# HAVE A MERRY - AND TAX-EFFICIENT - CHRISTMAS!



By specialist property accountant Stephen Fay FCA

It may be the season of goodwill, but that doesn't mean that the taxman shouldn't have to chip in his share towards the festive season. Here is a selection of top tips for ensuring that you have a merry – but tax-efficient – Christmas...

## ON THE 1ST DAY OF CHRISTMAS MY TAX ACCOUNTANT SAID TO ME... GIVE THE STAFF A CHRISTMAS PARTY

Companies can provide a Christmas event for staff and claim up to £150 per head as a tax deduction. And, if you bring a partner, the allowance is doubled to £300 – which is a decent budget! However to make the claim all staff must be invited – this isn't a director's perk. **BUT**, if you go above the £150 inc VAT figure, the allowance is lost, so plan the budget carefully.

**Note: this allowance doesn't apply to private landlords who don't have a company – but see later for other options.**



## ON THE 2ND DAY OF CHRISTMAS MY TAX ACCOUNTANT SAID TO ME... GIVE THE STAFF A CHRISTMAS BONUS

Employees can be given 'trivial' gifts which are fully tax-deductible for the employer. Examples include: a turkey, bottle of plonk, flowers etc. This also applies to tradesmen, solicitors, and even accountants!

Sadly, cash, vouchers and valuable gifts are taxable on both the employer and employee (or in the case of a private landlord, simply not a deductible expense).

## ON THE 3RD DAY OF CHRISTMAS MY TAX ACCOUNTANT SAID TO ME... INVOLVE THE FAMILY IN YOUR BUSINESS

Most landlords and companies have their family helping out with office work, decorating, dealing with tenants etc. If those family members are not using their personal allowance, why not pay them a wage – which is a tax-deduction for the business, but tax-free for the individual. A wage of £641 per month suffers no income tax or National Insurance (employee OR employer) at all. The wage also ensures the individual gets credits towards the State Pension.

## ON THE 4TH DAY OF CHRISTMAS MY TAX ACCOUNTANT SAID TO ME... TREAT YOUR SUPPLIERS (ISH)

Probably one of the most common questions from landlords is "is the bottle of wine / hamper / cigars that I've bought for my plumber / gas engineer / broker a tax



deductible expense" – the short answer is "no": food, alcohol and tobacco products are specifically excluded.

However, items with your business logo prominently displayed are allowable: so, a nice pen, or desk tidy, or mouse mat (etc) could be your gift – along with the non-tax-deductible wine (or whatever) if you are feeling generous – remember, don't buy tax-wise but business-foolish: looking after your property business suppliers and tenants makes sense even without a tax deduction.

## ON THE 5TH DAY OF CHRISTMAS MY TAX ACCOUNTANT SAID TO ME... CLAIM YOUR SUBSISTENCE COSTS

Most landlords incur costs for food, drink, and other refreshments as they go about their day to day property business management. In a nutshell, these costs can be claimed where a business trip is taken, but not for doing the normal routine tasks in your normal location.

Ask yourself – would it be reasonable for me to pop home for this meal? If you are a 10 minute drive from your home, then the answer would be 'yes' – and so the costs are not allowable. But if, for example, a London-based landlord is dealing with a refurb in Manchester, then clearly it is not practical to pop home for dinner – and so those costs would be allowable.

So, meals and drinks can be claimed when incurred away from 'your patch'.

## ON THE 6TH DAY OF CHRISTMAS MY TAX ACCOUNTANT SAID TO ME... HAVE A TIPPLE ON THE TAXMAN

Alcohol is not specifically disallowed for tax purposes as a business expense – **BUT**, the expense must be incurred on a business trip (see item #5), and must be 'reasonable'. So, wine with dinner on an overnight stay, or a beer while waiting for a train, are allowable expenses. Use common sense as to what the taxman might consider reasonable: a cheap McDonalds meal followed by an all-night drinking session would not be allowable, even on a business trip!



## ON THE 7TH DAY OF CHRISTMAS MY TAX ACCOUNTANT SAID TO ME... ASK GRANDPARENTS TO BE GENEROUS TO YOUR KIDS!

Everyone, including children, gets a Personal Allowance which allows a tax-free income of up to £9,440 (@2013) – however income derived from parental gifts (of cash or property) is taxed as the parents income above £100 per year.

**BUT**, income derived from capital provided by grand-parents (or other relatives or even friends) is **NOT** subject to this rule.

## ON THE 8TH DAY OF CHRISTMAS MY TAX ACCOUNTANT SAID TO ME... ASK YOUR EMPLOYER FOR AN INTEREST-FREE LOAN

Employers are able to provide interest-free loans to staff – currently £5,000 each, rising to £10,000 in April 2014. No income tax or NI is payable by the staff on this benefit. Don't forget that directors and 'spouse-directors' of companies are also "employees", so from next year this could mean £20,000 could be extracted tax-free from a company by way of an interest-free loan ...

## ON THE 9TH DAY OF CHRISTMAS MY TAX ACCOUNTANT SAID TO ME ... TREAT YOUR TENANTS TO SOME MAINTENANCE WORK

It's very easy as a landlord to neglect your properties, and assume that your gross cashflow is all yours – **BUT**, there are real people living in your properties, with their own families, who also want to enjoy Christmas – in a safe, water-tight, comfortable property.

So, why not spend a little money on your property before Christmas, or maybe in the New Year. Many tenants decide that they want to move home around this time of year, so it can make good business sense to spend some money on repairs and keep your tenants happy – and of course, repair costs are fully tax-deductible.

## ON THE 10TH DAY OF CHRISTMAS MY TAX ACCOUNTANT SAID TO ME ... USE YOUR INHERITANCE TAX ALLOWANCES



For those property investors whose estates (after liabilities) are above the IHT threshold of £325k (so, £650k for couples), think about using the IHT Gift Annual Exemption, of £3,000, at Christmas. And, don't forget that any unused relief carries forward one tax year.

So, for example, a married couple with 2 children could gift £12,000 to their children if they had not used their prior year allowance.

An annual £6,000 gift to the kids could be a nice annual habit to get into... and tax-efficient, naturally.

## ON THE 11TH DAY OF CHRISTMAS MY TAX ACCOUNTANT SAID TO ME ... IF YOU'RE EMPLOYED, FILE YOUR TAX RETURN BY 30TH DECEMBER

If you are employed, and will have a tax bill of £3,000 or less to pay, by filing your tax return before 30 December, the taxman will allow you to pay the bill over the following year in equal 1/12 instalments via your PAYE salary.

This is obviously a valuable cashflow-perk – an interest-free loan – that is especially useful at this time of year when those post-Christmas credit bills arrive, as well as your 31 January tax demand.

## ON THE 13TH DAY OF CHRISTMAS MY TAX ACCOUNTANT SAID TO ME ... WOULD YOU PASS THE 'RED FACE TEST'?

Many tax rules are open to judgements and interpretation.

It's human nature to want to push the envelope and so pay as little tax as possible – **BUT**, would you pass the 'red face test' if sat in front of a HMRC Inspector to explain your claim? Remember that part of avoiding a tax investigation in the first place is not giving the taxman a reason to look at you.

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