newsfile

Loans by small self-administered pension schemes

Where a small self-administered pension scheme has made a loan to a company, there is no requirement for the borrowing company to deduct tax from interest paid to the scheme where the interest is paid on or after 1 October 2002. This applies regardless of the term of the loan and the date on which the loan was made. This change was introduced in *FA 2002 s94*, which amended *ICTA 1988 s349*. ■

Corporate finance manual

The Revenue's corporate finance manual is now available on the Revenue's website. ■

Tax relief on pensions

The Secretary of State for Work and Pensions has denied that the Government is about to abolish higher-rate tax relief on pension contributions. Responding in Parliament on 21 October 2002 he stated that 'it would be best to wait and see what is in the pre-budget report and the Green Paper'. ■

Self-assessment

The Working Together team has asked agents dealing with self-assessment returns to notify changes in clients' details to his or her Revenue Office marked 'For the attention of the SA Agent Maintainer'. Also, details are on the Revenue's website of corrections of errors in the SAITR guidance notes. ■

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standard accounts information statement.

With regard to apportionment, the Revenue's view set out above on apportionment of costs 'necessarily' incurred by employees may be useful. Also, bear in mind that there is authority for apportionment in *Ransom v Higgs* [1974] STC 539 and in the Inspector's manual at paragraph IM601e:

'Where an expense is such that a definite part or proportion of it is wholly and exclusively laid out or expended for the purposes of a trade, profession or vocation, that part or proportion should not be disallowed on the grounds that the expense is not as a whole so laid out or expended.'

The main area of contention may well be the extent to which the home is actually used for business. It may be prudent to outline the basis of the claim in the white space of the return, particularly for the first claim.

CGT and business rates

The Joseph Rowntree Foundation called two years ago for various policies to be updated to take account of the impact of 'tele-commuting'. Traffic congestion and pollution were 'a national problem which home working could help address'.

Recommendations included making homes where business takes place exempt from business rates and capital gains tax. Now, whilst potential capital gains tax liabilities can usually be prevented by non-exclusive use or the availability of rollover relief or the annual exemption, there are signs that home-based workers are facing demands for business rates.

'Small Business Tax and Finance' reported recently that the Revenue's Valuation Office Agency is taking a more aggressive approach, and non-domestic rates are being claimed where a spare bedroom is used as an office. It has been suggested that all kinds of business use of a residence may give rise to liability to rates, including provision of music lessons. Editor Simon Owen suggests that householders facing demands should seek advice from a chartered surveyor specialising in rating work.

Advisers wishing to help their clients prepare for a possible challenge might like to read a Valuation Office leaflet 'Council Tax and Business Rates – Working at or from Home' published recently at www.voa.gov.uk. The VOA says several factors are considered in deciding whether or not part of a dwelling house is liable to rates. These will include the extent and frequency of the non-domestic use of rooms and any modifications made to the property.

It is important to bear in mind that each case is considered on its merits, but the VOA does provide some useful examples illustrating its views.

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Furnished holiday lets – restriction to loss relief in opening years

***Julie Butler* looks at a possible tax trap.**

Many diversifying farmers and property owners will look to maximising their returns by moving from furnished letting income to furnished holiday lets. The advantage of the latter is the ability to claim losses under *ICTA 1988 s380* and *s381*, i.e. against total income in the year of the loss and the following year with all the advantages of opening year's losses. However, it is important to look at one tax planning drawback.

Where furnished holiday accommodation was first let as furnished accommodation there can be a restriction under *s381*, i.e. the holiday accommodation is deemed for *s381* to start when furnished lettings began, not when lettings as holiday accommodation began.

It is important to review the loss rules which apply in more detail. Schedule A income tax losses are carried forward against any future income from the Schedule A business (*ICTA 1988, s379(A)(1)*.

Schedule A corporation tax losses of a company arising after 1 April 1998 can be set against total profits of the accounting period (*ICTA 1988 s392A(1)* inserted by *FA 1998 5 Sch 28*).

As an alternative the loss can be carried forward and treated as a Schedule A loss in the next accounting period (*ICTA 1988 s392(A)(2)*). The loss can be surrendered to another group company under the group relief rules but it cannot be surrendered as group relief in that later period.

Losses from furnished holiday lettings are allowable under the provisions of *ICTA 1988 s380-390, 393, 394*. This means that, in principle, they can be offset against total income in the year of the loss and the following year. In the opening years they can be offset against total income of the three years of assessment preceding that in which the loss was suffered, i.e. *s380* and *s381*.

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