ST. JAMES'S PLACE

TAX GUIDE

2001–2002

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TAX GUIDE
2001–2002

WALTER SINCLAIR, FCA

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Contents

<i>Preface</i> by Sir Mark Weinberg	xvi
<i>Abbreviations</i>	xvii
<i>Introduction</i>	xix

I	This year's tax changes	1
1.1	Introduction	1
1.2	Income tax	1
1.3	Tax on employments	2
1.4	Profits averaging	3
1.5	Business taxation	3
1.6	Capital gains tax	4
1.7	Inheritance tax	4
1.8	Tax-beneficial investments	5
1.9	Anti-avoidance etc	5
1.10	International matters	5
1.11	Landfill tax	5
1.12	Value added tax	5
1.13	Stamp duty	6
1.14	National Insurance contributions	6
1.15	Key rates and allowances 2001–2002	6
2	The basis of your tax liability	8
2.1	Who is taxable?	8
2.2	The taxes payable	8
2.3	What income is taxable?	9
2.4	Deduction of tax at source and tax credits	9
2.5	The distinction between capital and revenue profits	10
2.6	Revenue and capital expenses	11
2.7	Bank and building society interest	12
2.8	Year of assessment	13
2.9	Period of assessment less than full year	13

3	Personal reliefs	14
3.1	Earned and unearned income	14
3.2	Personal allowances	15
3.3	Indexation of personal reliefs	21
3.4	Working family and other tax credits	22
4	Annual payments and interest	25
4.1	Annual payments apart from interest	25
4.2	What are annual payments?	26
4.3	Interest payments	26
4.4	Interest paid for business purposes	27
4.5	Tax relief for interest payments	27
4.6	Loans for purchase and improvement of buildings and land	28
4.7	Deduction of tax from mortgage interest payments	31
5	Computing your income tax bill	32
5.1	Indexation of income tax bands	32
5.2	What is total income?	33
5.3	Total income – deductions	34
5.4	Charges on income	35
5.5	Deductions from tax payable	36
5.6	Investment income	37
5.7	The assessment and payment of your income tax	38
5.8	Interest on overdue tax	39
5.9	Fluctuating income	40
6	Husband, wife and children	41
6.1	Independent taxation of husband and wife	41
6.2	When you marry	42
6.3	Separate assessment	42
6.4	Separate taxation of wife's earnings	42
6.5	Deeds of covenant	43
6.6	The income of your children	44
6.7	Death of husband or wife	45
6.8	Divorce or separation	46

7	Income from land and property	49
7.1	The current property income tax system	49
7.2	Income falling within Schedule A	50
7.3	Losses	52
7.4	Assessment under Schedule A	53
7.5	Furnished lettings	55
7.6	'Rent a room'	55
7.7	Holiday lettings	56
7.8	The taxation of lease premiums	56
7.9	Woodlands	57
7.10	Dealing in property	58
7.11	Artificial transactions in land	58
7.12	Agricultural land etc	59
7.13	Land sold and leased back	59
7.14	Landfill tax	60
7.15	Aggregates levy	60
8	Income from dividends and interest	61
8.1	How dividends are taxed	61
8.2	Interest paid on government securities, etc	65
8.3	Bond washing – accrued income	66
8.4	Interest not taxed at source (Schedule D Case III)	67
8.5	Basis of charge under Schedule D Case III	68
8.6	Building society interest	69
8.7	Bank interest	70
8.8	Deep discount and deep gain securities	71
8.9	Scrip dividend options	72
8.10	Personal Equity Plan (PEP)	73
8.11	Tax exempt special savings accounts (TESSAs)	74
8.12	Individual Savings Account (ISA)	75
8.13	Venture Capital Trusts (VCTs)	75
9	Life assurance	78
9.1	Introduction	78
9.2	Types of life assurance	78
9.3	Qualifying policies	79
9.4	Life assurance relief	80
9.5	The taxation of life assurance policy proceeds	80
9.6	How the gains on chargeable events are computed and taxed	82
9.7	Top slicing relief	83

9.8	Example: Top slicing	83
9.9	Partial surrenders and excesses	84
9.10	Example: Partial surrenders – excesses	85
9.11	Inheritance tax	85
9.12	‘Key man’ policies	85
9.13	Permanent health insurance	86
9.14	Purchased life annuities	87
9.15	Guaranteed income bonds	87
9.16	European insurance policies	88
9.17	Changes to taxation of life policies	88
9.18	Policies effected by non-residents with UK companies	90
10	Income from employments and PAYE	91
10.1	Schedule E Case I	91
10.2	Schedule E Case II	91
10.3	Schedule E Case III	91
10.4	The distinction between Schedule D Case I or II and Schedule E	92
10.5	Employment outside the UK	92
10.6	Amounts included in your income	92
10.7	Expense payments for directors and others (form P11D)	109
10.8	Deductions you may claim	111
10.9	Share option and share incentive schemes	112
10.10	Employee share ownership trusts (ESOTs)	120
10.11	Retirement pension schemes	121
10.12	Compensation for loss of office	122
10.13	The assessment basis	123
10.14	The PAYE system	124
10.15	Profit Related Pay	129
10.16	Service companies etc providing personal services	130
11	Income from businesses and professions	132
11.1	Trades, professions and vocations	132
11.2	What is trading?	132
11.3	What business expenses are allowed?	133
11.4	The computation of your assessable profits for Schedule D Cases I and II	136
11.5	Stock valuation	139
11.6	Stock relief	139
11.7	Basis of assessment	139

11.8	Capital allowances	143
11.9	Capital allowances on plant and machinery	145
11.10	Fixtures – entitlement to capital allowances	156
11.11	Industrial buildings	156
11.12	Enterprise zones	158
11.13	Agricultural buildings allowance	159
11.14	Hotel buildings	159
11.15	Assured tenancies	160
11.16	Research and development (R&D) relief	160
11.17	Scientific research (R&D) allowance	161
11.18	Patent rights and ‘know how’	161
11.19	Dredging	162
11.20	Mineral extraction	162
11.21	Films etc	162
11.22	Relief for losses	163
11.23	Loss in new business	166
11.24	Terminal losses	166
11.25	Business Expansion Scheme (BES)	166
11.26	Enterprise Investment Scheme	167
11.27	Earnings basis and cash basis	169
11.28	Post-cessation receipts	170
11.29	Class 4 National Insurance contributions	171
11.30	Remediation of contaminated land	171
12	Partnerships	172
12.1	What is a partnership?	172
12.2	Partnerships under the new current year system	172
12.3	How partnership income was taxed – old system	174
12.4	Partnership losses	175
12.5	Changes of partners	176
12.6	Election for continuation basis	177
12.7	Partnership capital gains	177
12.8	Overseas partnerships	177
12.9	European economic interest groupings	178
12.10	Limited liability partnerships (LLPs)	178
13	Companies	179
13.1	Introduction	179
13.2	Corporation tax on profits etc	179
13.3	The imputation system	180
13.4	Accounting periods for corporation tax	181

13.5	Repayment supplement and interest on overpaid corporation tax	183
13.6	Small companies rate	184
13.7	Starting rate of corporation tax	186
13.8	Associated companies	186
13.9	The computation of assessable profits	187
13.10	Special capital allowances rules for companies	188
13.11	Losses	189
13.12	Reconstructions	190
13.13	Group loss relief	191
13.14	Terminal losses	192
13.15	Companies' capital gains and capital losses	192
13.16	Groups of companies	194
13.17	ACT on dividends, distributions etc	197
13.18	Close companies	201
13.19	Close investment holding companies (CICs)	202
13.20	Non-resident companies trading in the UK	203
13.21	UK companies with overseas income	203
13.22	Controlled foreign companies (CFCs)	204
13.23	Demergers	205
13.24	Unquoted company purchasing its own shares	206
13.25	Foreign exchange gains and losses	207
13.26	Interest rate and currency contracts and options	208
13.27	Loan relationships	208
13.28	Corporate venturing scheme (CVS)	209
14	Pensions	210
14.1	Introduction	210
14.2	The State scheme	210
14.3	Occupational pension schemes	211
14.4	Free-standing additional voluntary contribution (FSAVC) schemes	216
14.5	Personal pension schemes and retirement annuity contracts	217
14.6	Personal pension schemes (including stakeholder pension schemes)	218
14.7	Retirement annuities	221
14.8	The new regime	222
15	Miscellaneous aspects	223
15.1	Miscellaneous profits – Schedule D Case VI	223
15.2	Tax-free organisations	224

15.3	Patent holders	227
15.4	Authors' copyright sales and royalties	228
15.5	Sub-contractors	229
15.6	Farming	230
15.7	Building society arrangements	232
15.8	Insolvents	232
15.9	Lloyd's underwriters	233
15.10	Anti-avoidance provisions	234
16	Returns, assessments and repayment claims	244
16.1	Self-assessment – an overview	244
16.2	Your tax return	246
16.3	The Tax Inspectors and Collectors	249
16.4	Appeals against assessments	253
16.5	The Special and General Commissioners	253
16.6	Investigatory powers of the Revenue	256
16.7	Repayment claims	258
16.8	The collection of tax	262
16.9	Back duty investigations	264
17	Domicile and residence	269
17.1	The importance of domicile and residence	269
17.2	What is domicile?	270
17.3	What is residence?	272
17.4	How to change your domicile and residence	276
18	Tax on foreign income	278
18.1	Overseas income from investments and businesses	278
18.2	The basis of assessment under Schedule D	
	Cases IV and V	281
18.3	Professions conducted partly abroad	283
18.4	Relief for overseas trading by individuals	284
18.5	Earnings from overseas employments	284
18.6	Double taxation relief	286
19	Non-residents, visitors and immigrants	290
19.1	On what income are non-residents liable to UK tax?	290

19.2	Interest paid to non-residents in respect of certain UK government securities	293
19.3	Rules for taxation of visitors' income	293
19.4	When does a habitual visitor become a UK resident?	293
19.5	The position of visiting diplomats	294
19.6	Visiting entertainers and sportsmen	295
19.7	The entitlement of certain non-residents to UK tax reliefs	295
19.8	Immigrants	296
20	Capital gains tax	297
20.1	Introduction	297
20.2	What is a chargeable gain?	297
20.3	Who is liable?	297
20.4	Capital gains tax rates from 6 April 1988	298
20.5	Annual exemptions	299
20.6	What assets are liable?	301
20.7	What assets are exempted?	301
20.8	What constitutes a disposal?	302
20.9	How your chargeable gains are computed	303
20.10	Re-basing to 31 March 1982 values	304
20.11	Indexation allowance	305
20.12	Taper relief	309
20.13	Capital losses	311
20.14	Losses on unquoted shares in trading companies	313
20.15	Assessment and payment of capital gains tax	313
20.16	Valuations	314
20.17	Relief on sales of assets owned on 6 April 1965	316
20.18	Quoted shares and securities	317
20.19	Exemption for corporate bonds (QCBs)	324
20.20	Unquoted shares	325
20.21	Part disposals	326
20.22	A series of disposals	327
20.23	Private residences	327
20.24	Chattels sold for £6,000 or less	329
20.25	Replacement of business assets – roll-over relief	329
20.26	Gifts of business assets	332
20.27	General relief for gifts	332
20.28	Gifts relief from 14 March 1989	333
20.29	Business retirement relief	334
20.30	Charities	335
20.31	Leases and other wasting assets	336
20.32	Traded options	336

20.33	Commodity and financial futures	337
20.34	Overseas aspects	337
21	The taxation of trusts and estates	340
21.1	Trusts	340
21.2	Trusts where the settlor or testator is deceased	340
21.3	Trusts where the settlor is still living	341
21.4	Accumulation settlements for the benefit of the settlor's children	344
21.5	Income of discretionary trusts etc	344
21.6	Trusts' capital gains tax	345
21.7	Trusts' capital gains tax – business assets, gifts etc	346
21.8	Trusts' capital gains tax – disposals of interests and distributions	347
21.9	Foreign trusts	348
21.10	Estates of deceased persons	352
22	Inheritance tax	355
22.1	Introduction	355
22.2	Property chargeable	355
22.3	Potentially exempt transfers	356
22.4	Deemed domicile	356
22.5	Rate scale	357
22.6	Tapering relief	358
22.7	The ten year cumulation period	359
22.8	The seven year cumulation period	359
22.9	Indexation of rate bands	359
22.10	Valuation	359
22.11	Quoted securities passing on death	360
22.12	Valuation of related property	360
22.13	Land sold within three years of death	361
22.14	Inheritance tax on death	361
22.15	Excluded property	363
22.16	Double taxation relief	364
22.17	Exempt transfers	364
22.18	Relief for business property	367
22.19	Waivers of dividends and remuneration	369
22.20	Conditional exemption for certain objects and buildings etc	369
22.21	Relief for agricultural property	370
22.22	Woodlands	371
22.23	Quick succession relief	372

22.24	Administration and collection	372
22.25	Payment by instalments of tax on death	373
22.26	Payment of tax on lifetime gifts by instalments	374
22.27	Inheritance tax and life assurance	374
22.28	Property outside Great Britain	375
22.29	Miscellaneous points	376
22.30	Settled property	378
22.31	Avoiding double charges	381
22.32	Example: Calculation of inheritance tax payable	382
23	An outline of VAT	383
23.1	Introduction	383
23.2	VAT in practice	385
23.3	Zero-rating and exemption	388
23.4	Business	390
23.5	Small traders	390
23.6	Zero-rated supplies	390
23.7	Groups and divisions of companies	390
23.8	Local authorities	391
23.9	Charities	391
23.10	Retailers	392
23.11	Special cases	392
23.12	Documentation	396
23.13	Appeals	397
23.14	Zero-rating	398
23.15	Changes to zero-ratings	401
23.16	Exemptions	401
23.17	Trading within the EC	403
23.18	Optional rate for farmers	404
29.19	Renovations and conversions of residential properties	404
24	Stamp duty	405
24.1	Introduction	405
24.2	Exemptions	406
24.3	Relief for take-overs and within groups	407
24.4	<i>Ad valorem</i> duties	408
24.5	Stamp duty reserve tax	409
24.6	Abolition of stamp duty on shares etc	410

25	Social security	411
25.1	Introduction	411
25.2	National Insurance contributions	411
25.3	Social security benefits	414
25.4	Statutory sick pay (SSP)	416
25.5	Class 4 National Insurance contributions	416
26	Tax saving hints	418
26.1	Tax planning	418
26.2	Income tax saving	420
26.3	Capital gains tax saving	431
26.4	Inheritance tax planning	435
26.5	Change of residence and domicile	442
26.6	Year-end planning	443
26.7	The seven ages of tax planning	444
26.8	The way ahead	448
27	Tax Tables	450
27.1	Income tax table for 2001–02	450
27.2	Tax rates and allowances for 1989–90 to 2000–01	451
27.3	Income tax rates: for 1982–83 and subsequent years	452
27.4	Inheritance tax rates: from 18 March 1986 onwards	454
	<i>Glossary</i>	457
	<i>Index</i>	461

Preface

Over the past year or so, a hitherto unfamiliar expression has been much used in the world of financial services. A large number, and a wide range, of financial institutions have begun to take a considerable interest in the idea of 'wealth management'.

The term has no precise meaning, but it is used to describe offerings of one kind or another, which help people who have, or are in the process of building up, more extensive assets than the average to make the most of them.

Both we at St. James's Place and Walter Sinclair, who is the author of this tax guide, might be forgiven for smiling wryly at this new enthusiasm.

Few things have more significance for the management of wealth than the effects of taxation. This is the thirtieth year in which Walter Sinclair has written what is generally recognised as the most accessible, practical and comprehensive guide to that subject: it is difficult to imagine any single way in which an individual could make a more practical contribution to 'wealth management'.

Meanwhile, in a rather different sense, wealth management has been the business of St. James's Place since the Group was established in 1991. We have never wavered for a moment in our belief that the most important thing we can provide to our clients is a source of expert, reliable and personal financial advice, delivered by a group of exceptional individuals, now numbering over 1,000, who make up the St. James's Place Partnership.

Today, members of the Partnership can provide a wider range of financial solutions than ever before, and indeed somewhat wider than when I wrote the introduction to last year's edition of this guide.

Over the past ten years, our advice has helped some 350,000 individuals to manage their wealth, and I suspect that over 30 years Walter Sinclair's wise words and clear presentation have been of value to at least as many.

With this shared sense of purpose, I am delighted to write this preface commending the thirtieth edition to you. Your wealth will be the better managed for it.

SIR MARK WEINBERG
Chairman, St. James's Place Capital

Abbreviations

ACT	advance corporation tax
AEI	average earnings index
AVC	additional voluntary contribution
BES	business expansion scheme
CAA	Capital Allowances Act 2001
CGT	capital gains tax
CGTA	Capital Gains Tax Act 1979
CIC	close investment holding company
COMP	contracted out money purchase
CTC	children's tax credit
DLTA	Development Land Tax Act 1976
EEIG	European economic interest grouping
EIS	enterprise investment scheme
ESOP	employee share option plan
FA	Finance Act
F2A	Finance (No 2) Act
FIFO	first in, first out
FPCS	fixed profit car scheme
FSAVC	free standing additional voluntary contribution
HMSO	Her Majesty's Stationery Office
ISA	Individual Savings Account
ITA	Inheritance Tax Act 1984
LAPR	life assurance premium relief
LEL	lower earnings limit
MIRAS	mortgage interest relief at source
NRE	net relevant earnings

PAYE	pay as you earn
PEP	personal equity plan
PET	potentially exempt transfer
PHI	permanent health insurance
PIBS	permanent interest bearing share
PPP (PRO)	personal pension plan (protected rights only)
PRAS	pension relief at source
PRP	profit related pay
PSO	Pension Schemes Office
QCB	Qualifying corporate bond
RPI	retail prices index
S (Ss)	section (sections) of an Act
SAYE	save as you earn
Sch (Schs)	schedule (schedules) of an Act
SERPS	state earnings related pension scheme
SFO	Superannuation Funds Office
TA	Income and Corporation Taxes Act
TCGA	Taxation of Chargeable Gains Act 1992
TESSA	tax exempt special savings account
TMA	Taxes Management Act 1970
UEL	upper earnings limit
USM	Unlisted Securities Market
VAT	value added tax
VATA	Value Added Tax Act 1994
WFTC	working families tax credit

Introduction

Originally establishing itself as the *Hambro Tax Guide* nearly 30 years ago, this book has appeared annually ever since, most recently being called the *J. Rothschild Assurance Tax Guide*. The book has been designed to be used both by the professional and non-professional. Solicitors, accountants and company secretaries will find it especially useful as a concise ready reference. Many others, company directors and executives, partners and sole-traders, employers and employees, will find in it much helpful information and advice when dealing with problems of personal and company taxation.

It illustrates the working of income tax, capital gains tax, corporation tax, inheritance tax and VAT in the UK. It is intended to continue revising the book annually in order to keep it up to date in accordance with the annual changes to the law. This edition is based on the law as at 1 July 2001, including the 2001 Finance Act.

This, the 30th edition, deals with the tax system at the time of writing for the 2001–02 fiscal year. Every chapter has been amended to reflect the many tax changes which have been made since the previous edition, including those relating to income tax and personal reliefs, investments, National Insurance, capital gains tax, corporation tax, inheritance tax, VAT and many, many others. To help keep track of the changes, this edition includes a recently introduced Chapter 1 which summarises this year's tax changes and is referenced to the relevant paragraphs in the Guide.

At this important anniversary of the book, it is very interesting to consider some of the tax changes over the last 30 years, comparing 1972–73 with 2001–02.

		1972–73	2001–02
Income tax	Starting rate	—	10%
	Standard/Basic rate	38.75%	22%
	Top rate – at taxable income		
	£15,000 including surtax	88.75%	
	£29,400		40%
	Single personal relief	£460	£4,535
Capital gains tax rates (individuals)		30%	10/20/40%

(cont'd)

	1972-73	2001-02
Estate duty/inheritance tax threshold	£15,000	£242,000
Top rate at £500,001	75%	
Only rate in most cases		40%
VAT from 1 April 1973	10%	17.5%

Thus successive editions of the book have recorded falling rates for most taxes, apart from VAT. What is more, many reliefs and taxes, have come and/or gone, such as:

- Capital transfer tax
- Development gains tax and development land tax
- Surtax
- Earned income relief
- Investment income surcharge for individuals
- Stock relief
- Life assurance relief on new policies
- Mortgage interest relief
- Married couples allowance (unless born before 6 April 1935)
- New stakeholder pensions
- Advance corporation tax and the imputation system

So much for the past, but what of the future? Of one thing we can be sure, there will be many tax changes to include in the pages of future editions.

Due to the volume of changes, it is not possible to retain in each new edition full information for previous years. Thus for the tax rules for previous years, reference to past editions is occasionally necessary.

Because the book concisely covers a very wide field, it has been necessary to omit some of the exemptions and qualifications with which tax law abounds: to adopt a familiar saying, 'When I say never, I mean hardly ever and when I say always, I mean almost always'. The book is intended to be only a general tax guide. If it cannot solve a problem, the time has come to look at one of the multi-volume tax textbooks or to consult a tax specialist.

Ideas on tax saving appear throughout the book. However, Chapter 26 deals with *Tax Savings Hints* and has many references to the other chapters for easy location of topics. Furthermore, this chapter contains partic-

ular reference to future tax planning in a section entitled 'The way ahead.' (26.8).

A particular feature to note is that all indexing and cross-referencing uses chapter and topic numbers. Thus 7.6 means the sixth-numbered topic in Chapter 7. Similarly 7.6.3 would mean the third subsidiary topic within that main heading. Cross-references to related chapter and topic numbers appear throughout the Guide in brackets and you will also find references to tax legislation where relevant under the appropriate topic title. Also, a glossary to help with the meanings of certain terms appears at the end of this book.

The 2001–2002 *St. James's Place Tax Guide* brings together in a single volume all of the main taxes which are operating at present, enabling their total effect to be borne in mind. In planning for the future, however, account should be taken of the various avenues for short-term reform, as well as the longer term possibilities for capital gains tax, inheritance tax, income tax, etc. As new developments are crystallised, they will be covered in the future annual editions of this book.

I am most grateful to all those who have written to me with kind and helpful comments concerning the previous editions, some of which have been taken into account in the preparation of this volume.

I gratefully acknowledge the help given to me on this edition by E B Lipkin, LLB, FCA, ATII, TEP of HLB Kidsons, Malcolm Cooper-Smith of St. James's Place, Rob Gaines LLB and P D Silke, BPhil, MSocSc, Solicitor.

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