ST. JAMES'S PLACE

TAX GUIDE

2000–2001

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WALTER SINCLAIR, FCA

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Preface

So much has changed in the world of financial services over the past three decades that I find it a surprise and a pleasure to acknowledge involvement with something that has fundamentally changed very little.

Walter Sinclair's excellent guide to the UK tax system is approaching its 30th edition, yet it retains all the clarity, comprehensiveness and sense of purpose that made the first edition a success back in 1972.

The detail of the content has, of course, changed a great deal, reflecting the need to throw light on a tax system that has become increasingly complex and opaque. But the overriding principle has been – and remains – the desire to distil these complexities into a concise, readable and helpful work. It is encouraging to note that the *Tax Guide* has not only helped many people to understand their tax affairs and to make savings as a result, but has also won significant praise from media commentators and professional advisers as *the* authoritative guide.

A significant development in our own business this year is, of course, the change in ownership of our Group, and the consequent change in our name from J. Rothschild Assurance to St. James's Place. These important events reflect more far-reaching change in the nature of the service we provide to our clients: we have entered a period of transition, with a dramatic increase in the range of our products and services, and a major new focus on the potential of Internet technology.

However, just as a ceaseless process of development and expansion has not affected the essence of this *Tax Guide*, so too the essence of our business – the delivery of personal financial advice of the highest quality – remains quite unchallenged and unchanged.

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 1990
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 thirty 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 August 2000, including the 2000 Finance Act.

This, the twenty-ninth edition, deals with the tax system at the time of writing for the 2000–2001 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 new Chapter 1 which summarises this year's tax changes and is referenced to the relevant paragraphs in the Guide.

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 chap-

ters for easy location of topics. Furthermore, this chapter contains particular 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 2000–2001 *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 and Rob Gaines LLB of St. James's Place and P D Silke, BPhil, MSocSc, Solicitor.

WALTER SINCLAIR