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MONEY BOX LIVE

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TRANSMISSION: 16th FEBRUARY 2011 3.00-3.30 RADIO 4

DUGGLEBY: One thing is certain come 6th April: most of us will be paying quite a lot more tax and national insurance as the coalition government strives to get the deficit under control. Before that, of course, we have a Budget on 23rd March, which may or may not contain some more nasty surprises. In recent years budget measures have tended to be announced well ahead of implementation, so there's time for some advanced tax planning - the exception last year being the overnight increase in capital gains tax. This year pensions are of particular importance as the rules on contributions, annuities and drawdown will be completely different in the new tax year. Action now could in certain cases mean a lower tax bill in future. I must say I find it rather depressing that politicians and indeed some ministers are unable to distinguish between tax evasion and tax avoidance - only one of which is illegal. After all, you can avoid tax on savings by taking out an ISA if you can afford it. And why not? But you have to do it before 6th April, otherwise the annual allowance of £10,200 is lost. And the same applies to capital gains: tax free up to £10,100. Each year the Chancellor inevitably talks about another crackdown on tax evasion by the rich while the whole system gets steadily more and more complicated and the Revenue messes up millions of ordinary people who had reason to believe their tax affairs were in order. Despite that, it's up to you to claim all the allowances and deductions to which you're entitled, whether it's on pension contributions, capital gains, small business expenses or charitable donations, and my guests on Money Box Live this afternoon are at your disposal to answer questions about tax planning in general. Anita Monteith is Tax Manager at the Institute of Chartered Accountants for England and Wales.

Mike Warburton is Director at accountants Grant Thorton. 03700 100 444 is the number to call. And Pat in Reading, you've got the first question.

PAT: Yes, hello Vincent.

DUGGLEBY: Hello.

PAT: My question was with the 40% tax band coming down in April, what is the upper limit I can put into my personal pensions to avoid paying 40%?

DUGGLEBY: Yes, now this drop Mike - let's just get it clear - the reason it was done originally is to take people out of the tax net, but of course it drops others into it.

WARBURTON: Yes. What's happened is that as part of the coalition agreement, I have to say promoted mainly by the Liberal Democrat part of it, the personal allowances are going up by £1,000 - from £6475 to £7575, Pat, as you probably saw. But to make sure higher rate taxpayers don't benefit - you're quite right that the thickness of what's called the basic rate band, the 20% band, is being dropped from £37,400 to £35,000, so you correctly identify that. The point is that if you net those off, what it means is that the figure at which people move into paying 40% tax is falling by £1400 - from £43,875 to £42,475. So I think what you're asking is how can you pay pensions next year to avoid getting into 40% tax? Is that right, Pat - that's what you're trying to do?

PAT: Exactly.

WARBURTON: Yeah. And the answer is, yes, pensions is a good way of doing it. We're really saying here pensions that you would pay after 5th April, pay in the next tax year. And if what you're trying to do is to save the higher rate tax on that £1400, what you would do is you would put 80% of that - that's £1,120 - into your personal pension, and that would bring you under. In terms of the limits, well from next year the limits will be changing anyway and it's going to be quite a large figure. I think you’re going to be able to pay a total of £50,000 in.

DUGGLEBY: *(over)* I can see the point that Pat’s making here because actually he’ll be saving tax at 40%. Because up to now you’re sort of saying well, okay, pension contributions are generally thought to be a good thing, but obviously higher rate taxpayers, as we know, benefit to a greater extent?

WARBURTON: Absolutely. If you can get tax relief on your pensions at 40%, so much the better. And the Chancellor, by the moves he’s made, he’s going to give something like 750,000 more people the opportunity - if you want to put it that way - to save tax at 40%.

DUGGLEBY: Indeed. Yvonne in Preston has come up with a fairly similar question. As I read into it, she’s probably got an ordinary salary related pension scheme - in other words it’s a firm’s pension scheme. Now she sounds to me as though she can’t pay any extra into that, but she wants to know whether she can pay a personal pension contribution? Is that okay and does that avoid national insurance?

MONTEITH: Yes, she certainly can. But I’m afraid no it doesn’t avoid na…

DUGGLEBY: *(over)* But it does if you’re in a final salary scheme with your firm or something like that.

MONTEITH: Yes within your firm, the amount you’re paying before any deductions are made …

DUGGLEBY: *(over)* Yeah, the employer’s deducting it.

MONTEITH: Yes.

DUGGLEBY: And as long as it’s deducted, then it doesn’t pay national insurance.

MONTEITH: Yes. And that's different from if you're making a freestanding payment into your own pension pot.

WARBURTON: Yeah, the phrase these days is 'salary sacrifice'. This is the buzzword that's going round at the moment. As we move into the regime where national insurance contribution is going to be an extra 1% for employer and employee, if you can persuade your employer to 'sacrifice' some of your pay in favour of a pension contribution - you help them, you help yourself, and you save tax.

MONTEITH: It's a dangerous phrase though, Mike - 'salary sacrifice'.

WARBURTON: Oh come on! Vincent said it's tax planning. That's the point.

MONTEITH: I think you choose to have a different one.

DUGGLEBY: *(over)* Mike, tell me, if you actually arrange with your employer … Say you've got a small business that you're dealing with. Could you actually arrange to have say one month's salary paid ahead of 4th April as it were to sort of get the extra that you'd otherwise have taxed at 40% paid just a few days early?

WARBURTON: It won't surprise you to know I've been asked this question, and I think what we normally say to clients is don't try and be too clever. In theory, yes.

DUGGLEBY: In theory, because you'd be depressing next year's income and shifting it forward.

WARBURTON: *(over)* Yes. I think if you're too obvious about it, then there are tax cases available to HMRC to tax situations where you've given …

DUGGLEBY: *(over)* It's artificial, is it?

WARBURTON: Yes. It's got to be a commercial arrangement.

DUGGLEBY: Right okay, that's that one sorted out then. Now let's see what we can do for Glenys in Lymington.

GLENYS: Oh good afternoon. I've read recently an item that says that anyone born before April 6th 1937 whose income is less than £28,000 a year will have an increase in their tax free allowance, but in the first year they have to apply for this. Is that right and how does one go about it?

DUGGLEBY: I think you're talking about the higher rate tax band, the higher rate allowances for people over the age of 65, which also apply to those over 75, Anita?

GLENYS: That's right.

MONTEITH: Absolutely right, yes.

DUGGLEBY: So it's not actually 1937 per se. It's 75 years old.

GLENYS: Oh I see. Right.

MONTEITH: And, as Vincent says, there are two rates, Glenys. First of all if you're over 65, then the rate for next year is going to be £9,940 that is the personal allowance; and if you're over 75, it's £10,090. And the rule is that you qualify for the higher rate of allowance as long as you have reached the age by the end of the tax year. As to how you get it, it should happen automatically because of course HMRC do know how old you are. However, I would make sure that that happens. Do check the allowance you get.

DUGGLEBY: I can see some complications over people trying to recognise what we've been talking about earlier, which is the higher personal allowance for everybody. But that wasn't reflected, Mike, in the higher allowances for those over 75. They didn't bump those up any more.

WARBURTON: No it wasn't and this is a bone of contention for many Money Box listeners because of course if you are aged between 65 and 74, the current personal allowance that you get is £9,490. That's only going up to £9,940. That's basically 4.7% inflation and you're not getting the extra £1,000. Now depending upon your point of view, you're either lucky to already have an allowance that's bigger than most of the rest of us. On the other hand, given the VAT costs are going up for everybody, the VAT costs are going up for pensioners, but they're not getting this increase in personal allowances.

DUGGLEBY: *(over)* So we're narrowing this differential then?

WARBURTON: We are. And the Chancellor's committed to increase the personal allowance up to £10,000.

DUGGLEBY: But he's not committed to increase it for those over 75 proportionately.

WARBURTON: No, I think it's right that Money Box listeners and others make this view known.

DUGGLEBY: We want the same differential maintained.

WARBURTON: I think there's a very good argument for saying that, and as I get closer to 65 I'm more inclined to agree with that. *(laughs)*

MONTEITH: There is just one thing we haven't pointed out, and that is that if you're an older person getting one of these older allowances and your income is over the income ceiling …

DUGGLEBY: The income limit?

MONTEITH: That's right. Then the higher amount of your allowance does get clawed back.

DUGGLEBY: Yeah, yeah. It really is quite complicated, but hopefully the Revenue are across these matters and are not going to make quite so many mistakes as they appear to have made in the past year over …

WARBURTON: *(over)* No, no. In fairness to the Revenue, or the Treasury I should say, they've actually agreed that 250,000 pensioners are not going to have to pay back tax that could cost them quite a lot of money because of problems of the PAYE system in the past. I was very pleased to see that they did that.

DUGGLEBY: Right. Now then we've got an email from a lorry driver called Terry. Now Terry works overnight and he's asking us about his overnight allowance, which he says his firm is taxing him on and he's not sure this is correct.

WARBURTON: Well I don't think they should be. I mean I'm not sure whether that is a sleeper cab or not, but the general rule is the Road Haulage Association has come to an agreement with HMRC for a standard allowance, and the latest figure I've got is £30.75 a night. That was listed on the Revenue website on 31st December 2010, but I don't think that's gone up. But this is an amount that basically is to allow for subsistence for lorry drivers. If you're in one of these sleeper cabs, which many are, you may not spend that money. You can either get up to that limit for the money you've actually spent or 75% of it without having to produce the information. That's my understanding of how the system works.

DUGGLEBY: So Terry's question is because his firm is actually deducting tax from this amount, is there any way he can claim it back?

MONTEITH: I think it depends on exactly what the amount is for. If it's a round lump sum allowance, which it sounds like it might be, then the Revenue would probably be viewing that as extra salary. So I think he needs to start by asking his employer. If it turns out that he can legitimately claim some of that as part of his you know employment expenses, then he can make a claim.

WARBURTON: He can get a rebate. If he's been out and he's been to take a meal out at a restaurant or something and he's still got those invoices, then I don't see any reason why he shouldn't claim.

DUGGLEBY: It might be worth challenging the employer and saying does the employer know the rules?

WARBURTON: Absolutely.

MONTEITH: Yes. Particularly because this is in the Revenue's manuals, so they would need to look it up there. Also don't forget you can go back 4 years. So if it turns out he has been paying too much tax, he can claim a nice repayment.

DUGGLEBY: Now we should stress this is nothing to do with people who are on night shifts or anything like that.

MONTEITH: No.

DUGGLEBY: That's just part of your normal salary.

WARBURTON: This is a special arrangement negotiated by the Road Haulage Association.

DUGGLEBY: Well I'd say well spotted, Terry. You could be onto something.

WARBURTON: Absolutely.

DUGGLEBY: Alright. And another email. This one is capital gains tax and it's from Alan in Brampton who says, 'Can the panel please explain the position for people like me who sold assets worth more than the annual capital gains tax exemption before and after the 2010 Budget.' That's the one I mentioned at the beginning of the programme where the rate went up to 28% for those who are not basic rate taxpayers.

Mike, what's the position there?

WARBURTON: Well it actually works in our favour. Of course the change in the capital gains rate - for the first time ever since capital gains tax was introduced in 65, it changed halfway through the year. The good news is that if you've made a capital gain here both before and after 22nd June, you can choose which works best for you. So you could, for example, use your annual exemption of £10,100 against the gains that you've made after 22nd June where you would otherwise be paying tax at 28%. It works beneficially.

DUGGLEBY: The question here also arises about losses because losses taken let's say before and then gains afterwards, then what on earth are we doing here?

MONTEITH: You still do it to your advantage. You choose. And obviously you'll want your losses against the gains that are going to fall into the 28% rate of tax.

WARBURTON: Yeah. I mean one of the big advantages, I suppose in a way … It's bad enough having a 28% tax rate, but if you are in the fortunate position of having losses brought forward, they could actually be more valuable to you if you're now a higher rate taxpayer.

DUGGLEBY: But in general terms, you have to remember about capital gains - that if you just make losses, you can carry them forward.

WARBURTON: Yes.

DUGGLEBY: But if you make gains and losses, unfortunately they deduct the losses from the gains and you can end up losing your losses.

WARBURTON: The current year gains and losses are netted off. Brought forward capital losses, you can leapfrog over the year to the next year if you want to take full benefit of that year's annual capital gains exemption.

DUGGLEBY: I mean clearly it's in those people's interest to try to keep their gains below the level. Otherwise, if you're a higher rate taxpayer, it's 28%. And frankly you know if you've got 10,000 pounds worth of gains, most people would not have the basic rate tax liability on those gains.

WARBURTON: *(over)* Yeah. And the other thing everybody should be thinking about at the moment - because this is just before the end of the tax year - if you're married and you're going to make a capital gain, don't forget that you've got the opportunity to transfer shares or other assets to your spouse and they can make the capital gain, and you've got two lots of annual capital gains exemption available and one of you might be a higher rate taxpayer and one of you might be a basic rate taxpayer. So family planning, that's another theme we should be concentrating on for capital gains.

DUGGLEBY: Indeed, indeed. I'll come to the calls. You've just reminded me I've got an email from Derek in Broadway, and he's asking about the tactics of bed and breakfasting. Well of course you can't do that anymore, but he says 'Could I perhaps buy some more shares, pool them and …' He's got a complicated scheme which I don't think works. But the basic way of dealing with this is, one, bed and ISAs.

MONTEITH: You can bed and spouse.

DUGGLEBY: Bed and spouse.

MONTEITH: That's what you do.

DUGGLEBY: Or bed and ISA, which means you sell the shares …

MONTEITH: *(over)* Essentially you sell them and then your ISA buys them back.

WARBURTON: What you mustn't do is transfer directly to the spouse. It doesn't work if it's a direct transfer to your spouse because that's ignored.

MONTEITH: No. So you must sell them …

WARBURTON: *(over)*You must sell …

MONTEITH: … and your spouse must then buy them back.

DUGGLEBY: That's right. But this idea of avoiding it - he's trying to avoid the share fluctuations that take place if you … I mean bed and breakfasting is not as such possible, but you can sell shares and after a certain period buy them back.

WARBURTON: Well 30 days.

DUGGLEBY: 30 days.

WARBURTON: I mean what was very surprising - this came in in 1998, in Gordon Brown's first big Budget - and he brought in this measure as an anti-bed and breakfasting. And it was always obvious that if you're married, you can bed and spouse. But nobody's ever attempted to change that, so it looks as though we've still got that.

DUGGLEBY: Right. Sorry to keep you waiting, James in Bridgnorth, but it's your call now.

JAMES: Oh good afternoon. I'm self-employed and I do about 30,000 business miles a year. I'm considering changing my vehicle and I was just wondering whether to consider changing to a van from a car and also whether I should change before April in order to claim capital allowance?

DUGGLEBY: Anita, vans - I think they're slightly better treated, aren't they?

MONTEITH: They are, yes. James, do you have any other plant and machinery type needs or is it just the car and van?

JAMES: No.

MONTEITH: Well in that case, I would go for the van rather than the car if tax is your only consideration because you can spend at the moment up to £100,000 and get full relief for your van, the cost of your van, although that is going to be going down to £25,000. I don't know how much vans cost, but probably …

DUGGLEBY: It depends on the size.

MONTEITH: Yeah. I don't know how much you're thinking of spending, James.

JAMES: Probably more in the region of £10,000.

MONTEITH: Oh well in that case, it really doesn't matter - before or after April - but you'll get full relief for it. There's something called the annual investment allowance, which will cover it in full.

JAMES: Okay, thank you very much.

DUGGLEBY: Okay, thanks for that call, James. And Marcus now in Swansea.

MARCUS: Hello there, yes. I drive my own private car for my employer to do my job and obviously I claim business miles. A colleague tried to explain to me about a scheme where I can claim sort of tax relief back and I wasn't fully understanding what he was talking about and I struggled to find the information online. I was wondering whether you could explain what that scheme is?

DUGGLEBY: Your employer is not reimbursing mileage cost?

MARCUS: I get sort of a basic petrol allowance. I get sort of 11 pence a mile.

DUGGLEBY: But this is your own car?

MARCUS: It's my own car, yeah.

DUGGLEBY: So you don't get a company car. You've got your own car. You use it for business.

MARCUS: I do get a cash allowance from my employer.

MONTEITH: Right. Marcus, what they're talking about hinges on the Revenue's rates that they will allow people to be paid up to and not be taxed. So, for instance, you're only getting 11p a mile. Supposing you do 1,000 miles in the year, what you can claim tax relief for is the difference between the 40p that the Revenue allow as a set rate and the 11p you're actually getting. So that's 29p times 1,000 miles. And you claim that … Do you do a tax return?

MARCUS: No, I don't.

MONTEITH: Okay. Well you will need to make a separate freestanding claim for that as an extra deduction at the end of the year. The 40p a mile rate only works for the first 10,000 business miles. If you do more than 10,000, then it goes down to 25p a mile.

MARCUS: Okay because I do about sort of somewhere between 20,000 and 30,000 miles a year and have done for the last few years. I just wondered is that something I can go … How far back can I go?

WARBURTON: 4 years I guess you can go back?

MONTEITH: 4 years - yes, absolutely.

MARCUS: Okay, right.

MONTEITH: And you'll want to make your claim before 5th April because that gives you the maximum for that period.

WARBURTON: *(over)* The year will drop off if you don't get on with it now, I think is the answer.

MONTEITH: Yes.

DUGGLEBY: Indeed. Okay.

MARCUS: Right, okay, thank you.

DUGGLEBY: Right. Now a couple more emails. This one from Jacqui in Brixham saying, 'Regarding the higher personal allowance at 65, I would urge people to phone HMRC and remind them that your 65th birthday is imminent'. And she also says that 'You receive the allowance for the whole tax year in which you are 65, so March birthdays should do it now'.

WARBURTON: Yes, you can't change your birthday, but you can tell HMRC. *(laughter)*

DUGGLEBY: *(over)* I'm not too sure about telephoning them. I was reading an article saying it took about an average of about 12 or 15 minutes getting through. *(laughing)* You might spend more in phone bills than you get back with the allowance.

WARBURTON: Send a letter. I find that that normally is less stressful.

MONTEITH: I think it's important that we sort of talk to all pensioners and say please make sure you have checked your tax for each year, particularly if you get more than one pension.

DUGGLEBY: Right. Now this one is from Robert in Bradford. Another email asking

‘What is the maximum I can gift aid to charity and claim the tax relief? I informed the tax office I was going to give £8,000, but they’ve said I can’t be allowed more than £5,000 relief.’ Presumably that’s because the income doesn’t cover it, is it?

MONTEITH: Possibly.

WARBURTON: Well first of all there’s no general rule which limits the amount. There used to be, but many years ago that changed. It’s now unlimited. You can give a million pounds if you’ve got it. But you need to have the income to cover it, so I think that’s the problem. If you’re not a taxpayer … Effectively what happens is you claim basic rate relief when you give it, and if you’re not a taxpayer …

DUGGLEBY: *(over)* So they disallowed it because he probably hasn’t got enough income.

MONTEITH: *(over)* You need to have paid enough tax.

DUGGLEBY: Interestingly enough, Anita, this is the one area of tax planning where they allow you to go beyond the end of the tax year, don’t they?

MONTEITH: They do.

DUGGLEBY: It used not to be the case, but you can now declare a gift after the end of the tax year and get it carried back.

MONTEITH: You can carry it back for 1 year. That’s absolutely right.

DUGGLEBY: It’s an interesting relief that one.

MONTEITH: It is and it just gives you a little bit more flexibility. And it’s relevant this year in particular where people find they’ve perhaps just gone over the £100,000 and edging into the 50% rate. Then maybe be a bit altruistic and …

WARBURTON: *(over)* But on the other hand, if you're going to move into higher rate tax next year and you're not this year, then you want to gift aid payment next year.

DUGGLEBY: Indeed, indeed. Well of course it's the charity that will benefit in the end because they claim the basic rate tax relief. What you do with the higher rate tax relief is up to you. Some people will hand over a bit more. Some people will just …

WARBURTON: And on the tax return … I know we're past the tax returns now, but there is a box on it which allows you to donate the tax repayment to charity.

DUGGLEBY: Indeed, indeed. Right Paul in Warwick, your call.

PAUL: Hello, good afternoon. My son has just started his first job as a groom and he gets paid £175 a week. His employers have offered him the opportunity of either being paid gross or going onto PAYE. Now, as I understood it, being paid gross - I might be wrong about this, so that's one of my questions really - if you've got one source of income, then you may have no alternative but to go onto PAYE. If I'm actually wrong about that point, then he does in fact have a choice and my question is what would be his best route?

DUGGLEBY: Yes, I think you're on very slippery ground here - employers who purport not to be employers; probably putting him on some sort of short-term contract. I mean approach with caution.

WARBURTON: I think the fact that they've offered the choice is a bit worrying in itself …

MONTEITH: Alarm bells.

WARBURTON: … and if you looked at it strictly either what your son would be doing falls within the rules of being in employment or it doesn't, and there's a number of different tests on this. So I'm always slightly worried when someone says you've got the choice. The good news from your son's point of view is if they treat him as self-employed and it should have been treated as an employment, it's the employer that that the taxman will go for, certainly go for them first, because their obligation is to deduct the tax. Pluses and minuses on this. If there's genuinely an opportunity one way or the other, then if he's self-employed he will have a chance of getting more tax relief on expenses. It's much more generous if you're self-employed. So is your son, Paul, likely to have expenses related to this activity?

PAUL: Well he does have to provide his own transport and his own clothing as well.

MONTEITH: Can I suggest that you go on the Revenue's website and look up something called the 'employment status indicator' tool.

PAUL: Okay.

DUGGLEBY: And that has a series of questions.

MONTEITH: It's a series of questions, that's right. And the Revenue have said that as long as you answer the questions correctly, they will stand by the result that it gives. And you go through this like a great decision tree and at the end it will give you an answer either you're employed; you're self-employed; or don't know, please ring.

DUGGLEBY: One of the tests, Mike, of course is are you substantially providing your own tools and everything like that?

WARBURTON: Absolutely, that's one of them.

MONTEITH: Yes.

WARBURTON: There's another important point here. It's not simply a question of tax, Paul. If he's an employee, he does have better protection. So there are very significant employment protections built into the law.

PAUL: Yes, we have discussed that actually - things like sick pay and that kind of thing.

WARBURTON: Absolutely. And it's much more difficult for an employer. Suppose he finds he's got too many staff. It's the self-employed people he'll lay off first.

PAUL: Right.

DUGGLEBY: Kate has emailed us and she says, 'I don't know anything about tax planning, but I'm employed. Can the panel suggest any way I might reduce my tax on my salary?' The Revenue thought of that because it used to be virtually expenses are out of the question; you can't sort of you know reduce your salary artificially.

WARBURTON: It's pension, isn't it?

DUGGLEBY: Pension is the one thing.

MONTEITH: Pension and gift aid. And essentially you have to part with money in order to get tax relief for it, so you have to spend more for a lesser amount of relief.

DUGGLEBY: *(over)* But they have really tightened up on any little loopholes. I mean in theory if you use certain tools or things which are your own, then you can claim them back, but it's pretty rare.

WARBURTON: A small amount.

MONTEITH: And if you subscribe to certain journals …

DUGGLEBY: Magazines, yeah.

MONTEITH: For instance you know we're allowed to buy things like 'Accountancy'.

DUGGLEBY: But it's got to be deemed wholly, necessarily and … exclusively and necessarily for your job.

WARBURTON: Yes.

MONTEITH: Well actually it's in the performance …

DUGGLEBY: In the performance. Difficult one to meet.

MONTEITH: … it's in the performance of the activities of your employment that is the tricky bit.

DUGGLEBY: Yeah. So you've got to have an employer who says no, you can't have it, but on the other hand I recognise you need it.

WARBURTON: If I say I need to read the Taxation magazine and I pay for that, I can claim that back.

DUGGLEBY: And Grant Thornton won't let you read it.

WARBURTON: Well they think it's a very good thing that I read it. So I read the specialist taxation journals and that's typically allowable. If you're a doctor, you can claim for medical journals and things like that.

DUGGLEBY: But for normal mortals, very unlikely?

WARBURTON: No, they're not going to allow you to pay for The Daily Mail or some newspaper that's unconnected.

DUGGLEBY: *(over)* Unless you're a self-employed journalist.

WARBURTON: Maybe. *(Monteith laughs)*

DUGGLEBY: Right, Nigel in Plymouth, your call.

NIGEL: Hello, good afternoon. I'm a self-employed sole trader. My wife does all my accounts and books. I have a really small … I only turn over about £15,000 a year. Is there any way that I can pay my wife … Well I do pay my wife £25 a week to do all the books, but I can't put her down as a business expense because she only does my books, she doesn't work for anybody else, so she can't be a self-employed person.

DUGGLEBY: Oh hang on a minute, Nigel. No, I think, funnily enough, I think we've got a bit of good news for you.

NIGEL: Oh good.

MONTEITH: The answer is yes you can claim the amount you pay to her as a business expense. You say she's not being taxed as self-employed, so it sounds like you're treating her as an employee and that means that you can get the deduction for … Did you say you're paying her £5,000?

NIGEL: No, I'm paying £25 a week.

DUGGLEBY: *(over)* No, £25 a week. It's only about just over £1,000.

NIGEL: Absolutely.

MONTEITH: Oh okay.

DUGGLEBY: But the point is your wife won't …

MONTEITH: But what you do … *(to Warburton)* Do you have to do a PAYE scheme for that?

WARBURTON: Well I think the point is that you're below the annual exempt … the personal allowance.

DUGGLEBY: And you've got no national insurance.

WARBURTON: You've got no national insurance.

MONTEITH: I think as long as you're actually paying it, you must evidence that you're actually paying it, there isn't a problem.

WARBURTON: Nigel, I think your wife's an employee, not self-employed, but you pay her gross just the same because actually she's an employee earning below the allowances. Now it's no bad thing to clear that with the tax authorities if that's what you're doing because effectively that's the position she's in.

MONTEITH: Could I also just suggest. I mean heaven forbid that we should tell you how to run your business, but for tax purposes you might want to consider taking her into partnership with you.

DUGGLEBY: Yeah, that's a good idea. Yes. You don't have to be equal partners.

MONTEITH: I think you'll need some advice to …

WARBURTON: You don't need to answer that live on air. *(laughter)*

NIGEL: Absolutely not. No, that's fine. It's such a small amount, but seeing as I'm paying 25% and 10% national insurance on effectively £1,000 that I'm giving my wife every year, I don't see why I should.

MONTEITH: Well you might want to investigate looking at partnership, but certainly the answer is yes you can claim tax relief for employing her.

NIGEL: Thank you very much indeed.

DUGGLEBY: Okay, we've got time I think for one more call. Colin, you're in Somerset. If you could make it fairly brief.

COLIN: Yes, I'll try and do that. Simple question. I'm a higher rate taxpayer. I do a job as a travelling sales executive and I just wondered if there's any allowance made on a room set aside in my house purely for business purposes?

WARBURTON: Well the answer is if you do some work at home, which I guess you do as a travelling salesperson, yes you can. You can claim the proportion of your property that you use for this purpose. But there's a flat rate … I think it's £2 a week, is it?

MONTEITH: Is it £3 now?

WARBURTON: Maybe it's £3 a week that they allow you to claim without any questions. But a travelling salesperson, I would have thought that you probably do books and maybe make calls to your prospective customers from home

COLIN: Yes, yes.

WARBURTON: Well I would think you probably do use more than that amount in terms of home expenditure.

COLIN: Yuh.

DUGGLEBY: In general terms, I mean the self-employed can claim for the use of a room for the business?

WARBURTON: Yes, I've had people who've been self-employed and claimed anything up to 40% or 50% of the house.

DUGGLEBY: The great thing is to make it proportional to the size of the house and also not to have a room exclusively for the use of the business.

MONTEITH: Is Colin an employee or a self-employed person?

COLIN: Yeah, it's a good point. I'm actually an employee, so …

WARBURTON: *(over)* Yeah even an employee, I mean I think you can probably claim that it is necessary.

MONTEITH: *(over)* But you're severely restricted, Colin. Sorry.

DUGGLEBY: If you were fully self-employed, it would be slightly more relaxed. Okay we've run out of time, I'm afraid. But thanks very much to Anita Monteith from the Institute of Chartered Accountants for England and Wales; Mike Warburton from Grant Thornton. You can get more information from the website, bbc.co.uk/moneybox. Listen again, download a podcast, and let us know if you've had problems with your tax office. Paul Lewis will be here with Money Box at noon on Saturday and I'll be back same time next Wednesday afternoon with Money Box Live taking your calls on financial advice and where to get it.