

Tax planning in 'interesting times'

'May you live in interesting times' goes the ancient Chinese curse, and despite regular assurances from successive Chancellors that the tax system is being simplified, as far as tax planning is concerned we live in very interesting times indeed.

Complicated by the overlap of 'old' and 'new' rules on matters from pension saving to capital allowances, by changes which take effect part-way through your business year, and by changes which are announced now but do not take effect until one, two, or sometimes even three years later, tax today is a minefield.

With personal tax rates of up to an effective 60% it would be unwise to ignore the opportunities offered by proper professional tax and financial planning. We can advise on strategies to minimise taxes and maximise the strength of your business and long-term financial health by, for example:

- making the most of tax breaks for you and your business
- planning to extract profits from your business tax-efficiently
- making the most of tax-advantaged savings (including pensions)
- reducing the inheritance tax due on your estate.



Timing is crucial: getting the timing of a transaction or investment right can maximise tax relief. The timing also determines when any reliefs impact on your tax payments or your tax code. Sending us your accounting and personal records in good time means we can discuss planning opportunities and help you manage cash flow by giving you early warning of any tax payments due.

Time set aside to plan, to discuss your thoughts on your business and finances with your accountant, pensions adviser, colleagues and family, and to step back from the minutiae of everyday life to look at what you want to achieve is always time well spent.

Talk to us now for advice on making the most of the opportunities available to you and your business this year.

We can help with all aspects of your tax and financial planning needs.

Can you avoid the 60% tax rate?

While references to the 60% tax rate will not be seen in any official literature, this is nevertheless the effective income tax rate for anyone with taxable income of more than £100,000 this year on a slice of income. The personal allowance is lost to the extent of £1 for every £2 by which their income exceeds £100,000, so the 60% rate applies to income between £100,001 and £114,950.

There are two key routes to steer clear of the 60% rate: reduce income or increase allowances. The former would mean that you might defer income from one accounting year to the next, especially if your income fluctuates.

There is limited scope for increasing allowances, but pension premiums – which score for 20% immediate relief on payments and the balance through Self Assessment – would be effective.



Inside this guide...

Maximising relief on capital allowances

Your estate – lifetime planning for big tax savings

Are you making the most of your ISA allowance?

Company cars – a tax-efficient option?

Planning for your 'golden years'

Self Assessment – keep a record

Extracting profit – the tax-efficient way

My year end checklist

Maximising relief on capital allowances

Capital allowances take the place of depreciation, allowing the costs of capital assets to be written off against taxable profits. They are given at rates which are prescribed by the Government, and which may encourage 'green' investment.

The majority of businesses are able to claim a 100% Annual Investment Allowance (AIA) on the first £100,000 of expenditure on most types of plant and machinery (except cars). This is quite a high ceiling, but nevertheless it is worth bearing in mind if your business is incurring substantial amounts of qualifying expenditure: spreading the cost over two years may maximise tax relief.

In addition to the AIA, there are specific 100% allowances available for some investments, including energy-saving equipment and low-emissions cars. Plant and machinery not qualifying for 100% allowances are generally subject to an annual writing down allowance of 20% on the reducing balance, although there is a reduced rate of 10% for certain categories, including cars with CO₂ emissions exceeding 160g/km, long life assets and certain specified integral features of buildings.

In general, a purchase made just before the end of the current accounting year will mean the allowances will usually be available a year earlier than if the purchase was made just after the year end. In the same way, the disposal of an asset may trigger an earlier claim for relief or even an additional charge to tax.

Changes from April 2012

The AIA will be reduced to £25,000 from April 2012, and the annual writing down allowances will also be reduced to 18% and 8% (with special rules for accounting periods which straddle the change).

Please contact us for more information on the allowances that may be available to you, and advice on how you may be able to maximise tax relief before the reduction in the Annual Investment Allowance affects your business.

Your estate - lifetime planning for big tax savings



A freeze on the inheritance tax (IHT) threshold at £325,000 until 2015 means that even with ongoing uncertainty over house values, many people will continue to find that the value of their home takes their estate into the 40% IHT bracket.

In fact, IHT is currently payable at 40% on total assets exceeding £325,000, so if you own your own home and have some savings and other assets such as shares and securities, your estate could be liable. Early planning is therefore essential in order to minimise your liability to IHT. Your IHT planning strategies may include the following:

Using reliefs

There are a number of IHT reliefs available, perhaps most importantly relief on business and agricultural property, which effectively takes most of such property outside the IHT net. As always, there are detailed conditions, including a two-year minimum holding period, but business property will generally attract 100% or 50% relief.

Exempt transfers

Transfers of assets between two spouses are generally exempt from IHT, regardless of whether they are made during a person's lifetime or on their death. In addition, the nil-rate band may be transferable between spouses. This means that if the bulk of one spouse's estate passes on their death to the survivor, the proportion of the nil-rate band unused on the first death goes to increase the total nil-rate band on the second death.

Other exempt transfers include:

- small gifts (not exceeding £250 per tax year) to any number of individuals
- annual transfers not exceeding £3,000 (any unused amount may be carried forward to enhance the following year's exemption)

- certain gifts in consideration of marriage or civil partnership
- normal expenditure out of income
- gifts to charities.

Gifts throughout your lifetime

Introducing a programme of lifetime gifts can also significantly reduce the IHT liability on your estate. This has the advantage of allowing you to witness the benefits they bring to your family members, while also escaping IHT as long as you survive the gift by seven years and no longer continue to benefit from the gift yourself. A discount can also apply where lifetime gifts were made between three and seven years before death (note that the discount applies not to the gift but to the tax on the gift).

Making the most of trusts

Trusts can be used to help maintain a degree of control over the assets being gifted, for example in the case of younger recipients. Life assurance policies can be written into trust in order that the proceeds will not form part of the estate on your death. Talk to us about using trusts to suit your planning needs.

Keeping your Will up to date

Your Will is your ultimate opportunity to get money matters right. You should review your Will at regular intervals to ensure that it reflects changes in your family and finances, is tax-efficient and includes any specific legacies you would like to give, including tax-free donations to charity.

Through lifetime IHT and estate planning and action, you can reduce the liability to IHT, protect family wealth and ensure that you leave clear and complete instructions as to how your estate is to be distributed on your death. Contact us to find out more about strategies that could work for you.

Are you making the most of your ISA allowance?

Despite continuing low interest rates, Individual Savings Accounts (ISAs) are still a popular tax-free saving option for many individuals. Ideal for saving small, regular amounts, ISAs are available from banks, building societies and a variety of other providers. For all adult savers the maximum investment in 2011/12 is £10,680. You have until 5 April 2012 to make your 2011/12 ISA investment.

ISA investment limits	Overall	Cash
Adults	£10,680	£5,340
Age 16 - 17		£5,340

Junior ISAs, for those aged under 18 who do not have a Child Trust Fund account, will allow investment of up to £3,600 in 2011/12. Withdrawals are not permitted until the child reaches the age of 18, at which point the Junior ISA will become a normal adult ISA.

Company cars – a tax-efficient option?

Despite substantial tax costs, the company car remains an important part of the remuneration package for many employees – and an essential business tool for many employers.

However, tax and national insurance costs could mean that your company car may not be the most tax-efficient option for either employer or employee. There is also a fuel benefit charge where fuel for private use is provided with the car. The car benefit and car fuel benefit, on which you pay income tax at up to 50% and your employer pays 13.8% Class 1A national insurance contributions (NICs), are calculated at up to 35% of the list price (no longer capped at £80,000) and a notional £18,800, respectively.

For some, an employer provided van may be a viable alternative to a company car: the tax charge is £1,200 plus up to £220 for fuel for those paying tax at 40% (earning approximately £42,500 to £150,000 in 2011/12).

The company car or van benefit is currently subject to a Class 1A national insurance charge of 13.8%, payable by the employer.

It may also be worth reviewing the company car policy completely, as it could prove more beneficial to pay employees for business mileage in their own vehicles, at the statutory mileage rates.

We can help you to determine whether the company car is still a tax-efficient option, whether a qualifying 'van' might be an alternative, and ultimately help you decide on the best course of action for your business.



Planning for your 'golden years'

As we are regularly reminded, the gap between the amount of money that people are saving and the amount they need to ensure a comfortable retirement is an ongoing problem. It is now more important than ever to take steps to help maximise your income in retirement, including ensuring that you make the most of the tax breaks that are available to you.

Although many people have looked to parallel investments for retirement (for example, second homes and buy-to-let), investing in a pension scheme, whether a company or a personal scheme, allows you to enjoy tax breaks on your pension savings. There are tax reliefs as you invest and a tax-free regime for your savings. Your employer may also be able to contribute and obtain tax relief.

Scheme managers can provide pension forecasts to help you judge whether you are saving enough, and what additional savings you might have to make in order to generate the income you will need in retirement.

For pension contributions to be applied against 2011/12 income they must be paid by 5 April 2012. Tax relief is available on annual contributions limited to the greater of £3,600 (gross) or the amount of the UK relevant earnings, but subject also to the annual allowance.

The basic annual allowance is a straight £50,000 cap on pension savings. But in part to reflect the impact on higher earners of the cap between 2009 and 2011, and in part to reflect the simple fact that for many self-employed people earnings and available cash vary from one year to another, it is possible to adjust your annual allowance to reflect savings shortfalls in the last three tax years, against a notional cap of £50,000.

The rules are complicated, but we can calculate your personal pension savings cap, as well as advising on all aspects of financial planning, including a discussion of your spending needs, post-retirement.

Please call us for further information and assistance.



Self Assessment – keep a record

Record keeping has become vital under Self Assessment. We need to be able to support every figure on your Tax Return and you should keep personal financial records relating to your Tax Return for at least six years. Your entitlement to Gift Aid tax relief might provide an additional incentive.

When you make a donation to a charity, you are very likely to find that you are asked to make your gift under the Gift Aid scheme. If you choose to do so, and you are a higher rate taxpayer, then you are entitled to tax relief.

The charity can reclaim the basic rate tax which is deemed to have been deducted before your gift is made. The effect of this is that the charity can currently reclaim just over 25% of the amount you give.

If you are a 40% taxpayer and donate £1,200 to charities over the year, you are entitled to £300 of additional personal tax relief (£450 if you are paying 50%). If you qualify for a tax refund, we can even tick a box on your Tax Return and have the refund made over to the charity of your choice; and as long as the refund is made before 6 April 2012, that gift will also qualify for Gift Aid tax relief!

Donations can be made regularly – by direct debit, for example – or as a one-off. They do not even need to be made in cash: talk to us about gifts by businesses and gifts of non-cash assets.

Please contact us to discover how Gift Aid may help to reduce your tax payments.

Extracting profit - the tax-efficient way

While there are numerous ways of extracting profit from your company, each has its own implications for the amount of tax you pay, and for the company itself.

Most of the strategies below relate to limited companies. Company cars and vans are discussed in *Company cars: a tax-efficient option?* on page three.

Corporation tax is the tax due on a company's profits, while personal income tax generally applies to what is drawn out of the company by means of a salary, bonus, or other form of remuneration.

Dividend or salary/bonus?

The question of whether it is better to take a salary/bonus or a dividend can be a difficult one and the issue requires careful consideration. A dividend is paid free of national insurance contributions, whilst a salary or bonuses can carry up to 25.8% in combined employer and employee contributions. However, a salary or bonus is generally tax deductible to the company, whereas dividends are not, so the choice is not always straightforward. Paying a dividend can create a considerable saving. 5 April 2012 is the last date for paying a 2011/12 dividend, and any higher rate tax on that dividend will not be due until 31 January 2013.

The top dividend tax rate is now 42.5%, so thought needs to be given as to the timing of dividends if taxable income is likely to exceed £150,000.

Some alternatives

You may also want to consider alternative means of extracting profit, which might include the following:

Capitalisation

For those expecting to liquidate their companies in the next few years, profits might be left in the company to be drawn as capital.

Current rules allow retained profits distributed on liquidation to be subject to capital gains tax, with a potential tax rate as low as 10% if Entrepreneurs' Relief is available.

Incorporation

As the above points may suggest, incorporation may give more scope for saving or deferring tax than operating as a self-employed person or partner.

Of course, incorporation may not suit all circumstances, and the '1R35' rules specifically counter the use of 'personal service companies' to reduce tax, but we will be pleased to discuss how incorporation might apply to you and your business.

Tax-free allowances

Tax-free allowances, such as mileage payments, apply when you drive your own car or van on business journeys. The statutory rates are 45p a mile for the first 10,000 miles and 25p a mile above this. If you use your motorbike the rate is 24p a mile, and you can even claim 20p a mile for using your bicycle!

Childcare

Parents of young children may be entitled to tax and national insurance-free childcare vouchers, including the provision of vouchers of up to £55 a week, provided by their employer. Where both parents are employees, of the same or different employers, the exemption is effectively doubled. The costs are usually deductible to the employer.

Maximum vouchers per parent: For people who joined the scheme before 6 April 2011, the limit is £55 per week.

For those joining on or after 6 April 2011, the limit is:

- if your top tax rate is 20% - £55 per week
- if your top tax rate is 40% - £28 per week
- if your top tax rate is 50% - £22 per week

(Your children also have their own personal allowances, capital gains tax (CGT) exemptions and tax rate bands, so depending on your circumstances, it may be possible to take advantage of these allowances to help maximise family income and wealth).

Pensions

Employer pension contributions can be a tax-efficient means of extracting profit from your company, as long as an individual's overall remuneration package remains commercially justifiable. The costs are usually deductible to the employer and tax and national insurance-free to the employee. See page three for more details on the latest pension rules.

Property

Where property which is owned by you is used by the company for business purposes, such as an office building or car park, you are entitled to receive rent, which can be anything up to the market value, if you wish. The rent is usually deductible to the employer. You must declare this on your Tax Return and pay income tax, but a range of costs connected with the property can be offset. On the other hand, receiving rent may mean a bigger CGT bill if/when you come to sell the property, so care needs to be taken to weigh up the pros and cons.

Talk to us about the best ways to extract profits from your business tax-efficiently.

We are here to help...

Make good use of us! This guide is merely a starting-point, designed to help you identify areas that might have a significant impact on your tax planning. Please keep us informed of your plans and consult us early for help in taking advantage of tax-saving opportunities and tax-efficient investments. We are always pleased to discuss matters with you and advise in any way we can.

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My Year End Checklist!

- Make the most of my 2011/12 ISA allowance
- Make sure I avoid overvaluing stock and work in progress
- Talk to my accountant about ways to extract profits from my business at the smallest tax cost
- Find out how the timing of dividends and bonuses could reduce or defer tax
- Review my pension arrangements
- Claim capital allowances for expenditure on business equipment
- Find out the impact of accelerating disposals into the current financial year or deferring them into the next
- Plan to minimise the tax take, including VAT and capital gains tax
- Review my estate plan and my Will
- Put in place a tax-efficient gifting strategy
- Consider ways of improving cash collection
- Make sure I am offering tax-efficient staff remuneration packages
- Send my business and personal records to my accountant in good time
- Contact my accountant regarding these and any other issues relating to my business, tax and personal financial situation.