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# Don’t be an April Fool!

## Year end tax planning tips for the individual

The period leading up to the end of the tax year on 5 April is one of the best times for you to review your personal tax position and take action to maximise tax saving opportunities and minimise liabilities. This briefing contains a summary of the more important ‘in year’ and year end tax tips to help you identify the areas that should be considered so that we can then provide tailored advice for your particular needs.

## Income tax saving ideas for all the family

### Married couples

The tax treatment of married couples applies to same sex couples who have entered into a civil partnership under the Civil Partnership Act. References to husband and wife should therefore be read to include civil partners throughout this briefing.

### Splitting income

A review of the split of income between husband and wife may yield tax savings such as reducing or eliminating higher rate tax liabilities. For a redistribution of income to be effective there must be an unconditional and outright transfer of the underlying asset which gives rise to the income.

For example it may be possible to save almost £10,000 in 2009/10 by moving £43,000 of investment income from an income rich spouse to one with no income. This level of tax saving is unlikely to be possible for many but savings can still be made by much smaller transfers of income. Moving just £1,000 of savings income from a higher rate taxpaying spouse to one with income below the personal allowance (£6,475) may save £400 this tax year.

### Jointly owned assets

Income arising from assets owned jointly but in unequal shares is automatically taxed in equal shares unless a declaration is made to HMRC stating that the asset is owned in unequal shares. This election can be made on a Form 17 but must be made before the income arises.

Consider such a declaration when a new jointly owned asset is acquired.

The exception to the equal splitting rule is dividend income from jointly owned shares in ‘close’ companies which is split according to the actual ownership of the shares. Close companies are broadly those owned by the directors or five or fewer people.

Income tax savings may also be made if you are self-employed. For example, your spouse could be taken into partnership or employed by the business. This could be just as relevant for a property investment business producing rental income as for a trade or profession.

Alternatively a spouse could be employed by the family company. However, the level of remuneration must be justifiable and payment of the wages must actually be made to the spouse.

### Children

Children have their own allowances and tax bands. Therefore it may be possible for tax savings to be achieved by the transfer of income producing assets to a child. Generally this is ineffective if the source of the asset is a parent and the child is under 18. In this case the income remains taxable on the parent unless the income arising amounts to no more than £100 gross per annum.

> **Tip**
> Consider transfers of assets from other relatives (eg grandparents) and/or employing teenage children in the family business to use personal allowances and the basic rate tax band.

For children born since September 2002 a Child Trust Fund (CTF) has been introduced. The idea is to encourage tax efficient savings by family and friends, with the government’s help, to build a nest egg which the child can access once he or she reaches the age of 18. The government’s initial contribution amounts to £250 (£500 for low income families) with a further contribution at the same level once the child reaches age seven. Other contributions of up to £1,200 per annum can be added to the fund and although there is no tax relief on making the contributions the fund is tax exempt.

### And for those 65 and over

Taxpayers aged 65 and over are able to claim higher personal allowances. The benefit of these allowances is eroded where income exceeds £22,900. In such circumstances a move to capital growth or tax free investments may preserve the higher personal allowances.

## Capital gains tax

### Could you benefit from planning ahead?

Each individual has an annual exemption for Capital Gains Tax (CGT) purposes. This is £10,100 for 2009/10. Review your chargeable assets and consider selling before 6 April 2010 to utilise the exemption.

> **Key point**
> Husband and wife each have an annual exemption. A transfer of assets between them may mean they can both make gains of £10,100 tax free.

Bed and breakfasting (sale and repurchase overnight) of the same class of shares is no longer tax effective. However sale by one spouse and repurchase by the other, or sale

outside an ISA and repurchase inside, may achieve the same effect. This can be done either to utilise the annual exemption or to establish a capital loss to set against gains.

Children also have their own annual exemption and this may be utilised by investing for capital growth.

Careful planning could lead to £10,100 of gain per family member being realised every year tax free.

### The current system of CGT

- Certain qualifying business gains are charged at an effective 10% tax rate on the first £1 million of such gains where Entrepreneurs' Relief is available.
- A flat rate of CGT of 18% will apply to any other chargeable gains.
- If you have two homes you may be able to make elections to maximise the 'main residence' exemption.
- Remember that capital losses can be established by making a claim where assets no longer have any value - a 'negligible value' claim.
- Certain other reliefs may allow you to defer certain types of gain.

**Comment**

Many of the key areas of planning for CGT have qualifying conditions or requirements to follow before being achieved so please contact us to discuss any of these areas of interest.

## Family companies

### Maximising potential income, minimising the extraction costs

A director/shareholder of a family company can extract profits from the company in a number of ways. The two most common are by way of bonus or dividend. For every £1,500 retained by the higher rate taxpaying individual, the cost to the company is £2,000 if a dividend is paid and £2,266 if a bonus is paid. This assumes the company is liable to corporation tax on its profits at the small companies rate of 21%. There are other factors which may affect a decision to pay a dividend including ensuring there are sufficient distributable profits. However, paying a dividend can often result in significant tax savings.

## Charity watch

### Making the most of giving

To encourage charitable giving, the government has created a number of ways of securing tax relief on charitable donations.

Gift Aid is the most common method and applies to cash charitable donations large or small, whether regular or one-off. The charity currently claims basic rate tax of 20% back from HMRC plus a further 2% supplement.

For the individual donor, who is a higher rate tax payer, a cash gift of £78, (£100 for the charity due to 22% rebate) only costs £58.50, due to the additional 20% tax relief of £19.50.

**Tax Alert**

Tax relief against 2008/09 income is also still possible for charitable donations made between 6 April 2009 and 31 January 2010 providing the payment is made before filing the 2008/09 tax return.

Always remember to keep a record of any gifts you make.

It may also be possible to make gifts of quoted shares and securities or land and buildings to charities and claim income tax relief on the value of the gift. This may be tax efficient for larger charitable donations.

## Using tax efficient investments

Some investments benefit from a favourable tax status. However any investment decision should involve consideration of all the relevant factors, including the risk level and the need for income and capital in both the short and long term, as well as the tax advantages.

### Individual Savings Accounts

Individual Savings Accounts (ISAs) provide an income and capital gains tax free form of investment. The maximum investment limits are set each tax year. Therefore to take advantage of the limits available for 2009/10 the investment(s) must be made by 5 April 2010.

An individual aged 18 or over may invest in one cash ISA and one stocks and shares ISA per tax year within the following limits:

- a cash ISA allows you to invest up to £3,600 with one provider only, in any one tax year
- a stocks and shares ISA allows you the option to invest up to £7,200 with one provider in any one tax year
- however, if you want to invest in both then the stocks and shares ISA investment should be capped so that overall you do not exceed the £7,200 limit.

16 and 17 year olds are able to open a cash ISA only.

**Tax alert**

For those aged 50 and over the ISA limits for 2009/10 were increased with effect from 6 October 2009 to £10,200 overall with the cash component increasing to £5,100.

### Other key investments

There is a wide range of **National Savings & Investment Bank (NS&I) products**, for example NS&I savings accounts, savings certificates and bonds. These are taxed in a variety of ways. Some, such as National Savings Certificates, are tax free.

For those whose income may fall in the future, for example due to retirement, investments deferring income to a subsequent period may be attractive. For example **single premium life assurance bonds** and **'roll-up' funds** can achieve this effect.

The **Enterprise Investment Scheme (EIS)** allows new equity investment of up to £500,000 in any tax year in qualifying unquoted trading companies. Income tax relief at 20% is generally available on the investment and capital gains tax exemption is given for shares held for at least three years.

Furthermore unlimited capital gains realised on the disposal of other chargeable assets (such as investment property) may be deferred by reinvestment in EIS shares.

**A Venture Capital Trust (VCT)** invests in the shares of unquoted trading companies. An investor in the shares of a VCT will be exempt from tax on dividends (although the tax credits are not repayable) and on any capital gains arising from disposal of the shares. Income tax relief, currently at 30%, is available on subscriptions for VCT shares, up to £200,000 per tax year, if the shares are held for at least five years.

## Pensions

### Plan ahead don't take a chance on your future!

There are many opportunities for pension planning but the rules can be complex in certain circumstances.

Individuals can obtain tax relief on contributions up to £3,600 (gross) per year with no link to earnings. This makes it possible for non-earning spouses and children to make contributions to pension schemes.

Tax relief for further contributions is available on up to 100% of earnings as long as this does not exceed the annual maximum (currently £245,000). Earnings includes pay, benefits, trading profits and is generally referred to as net relevant earnings.

The rules include a single lifetime limit (£1.75 million for 2009/10) on the amount of pension saving that can benefit from tax relief. This lifetime limit is measured when pension benefits are taken.

**Tax alert**

Higher rate tax relief on pension contributions remains available at 40% for the higher rate taxpayer for 2009/10. However, for individuals who have an income in excess of £150,000 in 2009/10 or in either of the preceding two tax years, special rules may apply for 2009/10 to limit the tax relief on extra pension contributions. Therefore professional advice is recommended before any action is taken.

As always we would be delighted to discuss with you any of the matters included and any appropriate action you may need to take.

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