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Act now to avoid higher tax bills

The end of the tax year (5th April 2010) is quickly approaching, with a possible Budget prior to then. Now is a good time to consider tax planning ideas if you want to pay less tax. If you wait too long you could be missing tax saving opportunities.

This edition of 'Pay less tax' focuses on some key tax saving opportunities that you may wish to think about **before the end of the tax year.** As everyone's circumstances are different we would be delighted to talk to you in detail about how the rules apply to you and how you could save tax.

We want to help you pay your fair share of tax… and not a single penny more!

Extract profits tax free or little tax

Maximise the amount of dividends you take before 6th April 2010, if you own shares in your own company. Providing your own gross income (including the dividend) remains below the higher rate tax threshold in a tax year (currently £43,875), then there is no further tax to pay on the dividend. Care is required to ensure the relevant documentation is completed and approved prior to the payment being made.

It may also be worth ensuring that basic rate tax bands for spouses are fully utilised by receiving dividends to take their income up to the higher rate threshold. As there are currently no income shifting provisions there may be scope to do this depending upon full circumstances.

Providing profits are available for the dividend then this can be a tax efficient way of taking monies from the business. You may wish to have the funds personally available, or perhaps prefer to safeguard the cash from future trading difficulties. Alternatively you may prefer to leave the cash in the company, in which case you can still declare the dividend and maximise tax savings.

If your income exceeds the higher rate threshold you can still consider dividends, but you will lose up to a quarter of the payment in tax. Although dividends are quite a cheap way to extract profits from the business, there are other alternatives. **We do offer a remuneration review** to establish the most tax efficient options for your circumstances. Please contact us if you want to find out more.

Reduce the P11D burden

If you provide employees with benefits or expenses, then you could cut down your workload with an agreement from the Revenue, known as a "dispensation". Act before 6th April 2010 to save time this year. Please contact us if you would like assistance.

Quick Tax Tips

Couples can save tax on rental property

A married couple/ registered civil partners may well be able to save tax on jointly held properties they rent out. Income from jointly held property is normally treated as if it belonged to the two individuals in equal shares. Each will then be taxed on their half of the income, irrespective if they own the property in unequal shares.

If the property is jointly held in unequal shares then it is possible to notify HM Revenue and Customs the proportion of property each owns (e.g. 20% and 80%) and the income from the property will be taxed in the same percentages. The idea is that the lower earning spouse/partner would have the bigger share of the income and pay tax at a lower rate and save tax overall for the couple. The unequal beneficial interest needs to be established first and then the election submitted to HM Revenue and Customs in order for this to be applied going forward.

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Plan pension contributions

Pension contributions paid by an employer can often be more tax efficient, than you paying personally into your pension scheme. There is an immediate saving in National Insurance for both the company and yourself, and there can be a cash flow saving on the tax.

Normally you are liable to tax and National Insurance on the salary that you receive from the company. On top of this the company is normally liable to further National Insurance. This tax and National Insurance is often paid over to HM Revenue & Customs shortly after the salary is paid to you.

If you make pension contributions personally you would then look to reclaim higher rate tax on the contributions, some months after the tax year in which the contributions were made. This could be up to 22 months after the first contribution was made.

To save money and ease cash flow, you could consider "employer" contributions into your pension pot. Providing certain conditions are met, there is no liability to tax or National Insurance if the company pays employer contributions into your pension scheme. It may also be possible for the company to get full tax relief for the contributions in the same way had it paid you the contributions in extra salary. The National Insurance saving alone could be up to 23.8% of the contributions and so it is worth considering.

In current times of cost cutting you could even consider this for your employees. You could use a "salary sacrifice" scheme, where the employee receives less salary and the employer pays into their pension pot. Care needs to be taken on setting this up. However with potential savings of up to 23.8% of the salary between the employer and employee, it is worth getting it right.

If an individual's income exceeds £130,000 then care may be needed with pension contributions in excess of £20,000 per annum. Employer Financed Retirement Benefit Schemes may provide a suitable alternative here. We will be happy to discuss this further.

Organise your investments to save tax

Couples, have you considered putting investments that are not tax free into the name of whoever pays the lower rate of tax? If not then it may be worth doing so to reduce your combined tax bill.

Over 65's could consider investments which do not count as their taxable income. If taxable income exceeds the annual limit (currently £22,900) then the age related allowance available will be reduced. By taking careful action, personal tax bills can be reduced, without the need for giving away investments.

Investments that produce gains rather than income may well be more tax efficient for some. With careful management capital growth in investments may well be achieved without paying tax, as opposed to paying income tax on income generating investments.

In the current tax year (2009/10) up to £10,100 in total gains (after reliefs etc) can be made tax free by each individual. This can be quite attractive for higher rate tax payers or even for children whose parents are higher rate tax payers. However financial advice should always be sought before taking action.

Losses on shares can still be realised by selling and purchasing them back within an ISA, or by selling shares and your spouse buying them. Losses can then be set against gains on other assets in the current year, or later, to reduce Capital Gains Tax.

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Quick Tax Tips

Donated to Charity?

If you have or intend to give to charity this tax year, don't forget to claim "Gift Aid". The charity will then be able to claim from the government a further 28p for every £1 that you donate. This really increases the value of your donation.

Not only that, but if you are a higher rate taxpayer (total income in excess of £43,875) then in addition you could reclaim **tax of 25p for every £1 donated,** providing the gift is shown on your Tax Return. Hence for every £1 you donate to charity you would reduce your personal tax bill by 25p.

If a couple wish to make a donation and one is a higher rate taxpayer, then it is more tax efficient for the higher rate taxpayer to make the payment and get higher rate tax relief on the donation.

VAT - Make life simpler

In order to ease the administrative burden for the business, cut costs or perhaps improve cash flow, have you considered using Annual Accounting, Cash Accounting or the Flat Rate Schemes?

Annual accounting is just that - you will only have to complete one VAT return each year and this has to be submitted 2 months after your tax period has ended. You will have to make interim payments during the year (usually nine) and a balancing payment when your return is completed. Admission to the scheme is subject to conditions including taxable turnover of less than £1.35M.

Cash Accounting helps businesses struggling to collect debts. Under the scheme the business will not be liable for VAT on invoices it raises, until it receives the cash. This can be a significant cash flow advantage for some businesses. Admission to the scheme is subject to conditions including taxable turnover of less than £1.35M.

The Flat Rate Scheme can make completing your VAT Return even simpler. How does it work? You multiply your total VAT inclusive turnover for the tax period by the percentage relevant to your business type and this is the amount you pay, there is generally no claim for input tax. The only adjustment you would ever make was if you bought an expensive capital asset.

The flat rate scheme is not right for everybody, as some of the percentages set by the government result in more VAT being paid. However for some businesses there can be both an administrative saving as well as a tax saving. Admission to the scheme is subject to conditions including taxable turnover of less than £150,000.

Hot off the Press

31st March disclosure opportunity for Doctors

Doctors are being encouraged to volunteer details of income previously not declared to HM Revenue & Customs (HMRC). It has been suggested that HMRC may have collated details of income previously not disclosed by the medical profession.

They are now giving doctors an opportunity to come forward with details of income not declared before HMRC start approaching each individual directly. The initiative is being called the Tax Health Plan (THP).

Why bother you may ask? By coming forward the penalty has been set at 10% of the underpaid tax, on top of which the tax and interest will still be payable.

For those that don't come forward by 31st March 2010 the penalty could be much higher, possibly up to 100% of the outstanding tax and in exceptional cases criminal proceedings may be considered. Please contact us as soon as possible if you require assistance, as anyone in this position needs to register by 31st March 2010, before providing full details and payment by 30th June 2010.

Although the Tax Health Plan has been announced for the medical profession, it is initially aimed at doctors registered with the GMC. It has been suggested that Dentists may be next with other professions to follow.

Quick Tax Tips

Furnished Holiday Accommodation

If you intend to buy furnished holiday accommodation then you may wish to do it prior to 6th April 2010 and ensure that it is let out by then. Providing the conditions for a furnished holiday let are met in the subsequent 12 months then you could roll over a capital gain into the accommodation on the sale of another business asset in previous 3 years or subsequent 12 months. Tax on the rolled over gain would only become payable should the property be disposed of.

If you already have furnished holiday accommodation that has increased in value from when you bought it, then you may wish to consider crystallising the gain before 6th April 2010 to secure Entrepreneur's relief on the gain and pay tax at 10% in January 2011, rather than a higher rate in future years.

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Save tax on your investments

Income Tax relief of 30% is available on investments up to £200,000 into a Venture Capital Trust (VCT). Any dividends received would be exempt from income tax and the eventual sale of the shares would be exempt from Capital Gains Tax, providing certain conditions are met.

Income Tax relief of 20% could be enjoyed on investments up to £500,000 into an Enterprise Investment Scheme (EIS). The eventual sale of the shares would be exempt from Capital Gains Tax, providing certain conditions are met. Under current legislation EIS investments may be **exempt from Inheritance Tax** after two years of holding such an investment. Not only that, but it may be possible to defer any other personal capital gains into the investment to avoid paying Capital Gains Tax now.

If you are setting up a business and introducing funds, then it may be possible to enjoy the same tax breaks as for an EIS investment. Care would be needed as there are a number of conditions to meet, but the tax savings could be substantial.

It is worth paying the maximum contributions into an ISA (Individual Savings Account) before 5th April 2010! You may ask why? Well, subject to the risks and possible rewards under the current economic climate, ISAs are still exempt from Income Tax and Capital Gains Tax. If you are looking to invest, then ISA's are well worth thinking about, often instead of ordinary deposit accounts.

Currently up to £7,200 could be invested into an ISA, of which up to £3,600 can be cash investments each tax year. **If you are aged 50 or over** then the ISA limit is currently £10,200 of which up to £5,100 can be in cash. Financial advice should always be sought to ensure the right investments are made for your circumstances and the risks you wish to take.

Quick Tax Tips

Separation, Divorce and Tax

If you are in the unfortunate position of splitting up, whether married or civil partners, then tax may be the last thing on your mind. However, overlooking the issues could add unwelcome tax bills to the costs of splitting up.

Before a married couple or civil partners separate, all transfers of assets between them are usually free of Capital Gains Tax, irrespective of what monies pass between them.

However once a couple separates, then this tax exemption is lost after the end of the tax year in which they separate. This can result in an unexpected tax liability on the eventual transfer of assets. For example if a couple have split in January 2010, then from 6th April 2010 they will no longer be able to transfer assets without the possibility of a Capital Gains Tax liability arising.

We can help

Taking advantage of tax saving opportunities and avoiding the tax pit falls can mean that action often needs to be taken on a timely basis. We can provide such timely advice and ensure that you maximise your tax savings.

The key message is to seek advice early. Many tax planning opportunities are only available if put in place **before** undertaking a transaction, or **before the rules change.** If you would like to discuss ways in which you may be able to make tax savings then please do not hesitate to contact us.

We would be delighted to advise you on any of the issues identified in this edition of "Pay less tax."

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