

# 2010/11 Year End Strategies

## With a top tax rate of 60%, how far will you go to reduce your bill?

Only a few years ago, the lowest tax rate paid by most people was 10%, with the basic rate at 20% and the highest rate at 40%. Today, very few people get any advantage from the 10% rate and the highest rate charged on income is now 50% – with an effective 60% rate for those with incomes between £100,000 and just under £113,000. The highest tax rate on dividend income has also risen, from 32.5% to 42.5%.

With tax rates at these levels it would be unwise to ignore the opportunities offered by proper 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.

Tax and financial planning are essential parts of managing your business and your personal finances.

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



## Have you taken advantage of your ISA allowance?

Despite recent 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 2010/11 is £10,200.

You have until 5 April 2011 to make your 2010/11 ISA investment.

ISA investment limits	Overall	Cash
Adults	£10,200	£5,100
Age 16 - 17		£5,100



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# Avoiding the 60% tax rate

You will not see the 60% tax rate in any official literature, but this is the effective income tax rate for anyone with taxable income of more than £100,000 as the personal allowance is lost to the extent of £1 for every £2 by which their income exceeds £100,000.

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

## Giving... and receiving

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 28% 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 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.

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.

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



## Capital allowances – maximising the relief

‘Depreciation’ is not tax-deductible – instead, capital allowances are given, at rates 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 CO<sub>2</sub> emissions exceeding 160 g/km, long life assets and certain specified integral features of buildings.

In general, a purchase 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.

**Please contact us for more information and advice on the allowances that may be available to you.**



## How tax-efficient is your company car?

Over recent years, the cost of motoring has increased significantly, partly as a result of regular increases in fuel prices. Despite this, the company car remains an important part of the remuneration package for many employees.

However, tax and national insurance costs could mean that your company car may not be the most tax-efficient option for either the employer or the employee. There is also a fuel benefit charge where fuel for private use is provided with the car.

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% (roughly earning £44,000 to £150,000 in 2010/11).

The company car or van benefit is currently subject to a Class 1A national insurance charge of 12.8%, payable by the employer.

It may also be time to review the company car policy completely, as it may be 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 and decide on the best course of action for your business.**

# Planning for your retirement

The gap between the amount of money that people are saving and the amount they need to ensure a comfortable retirement is a perennial problem. It is important to act now to help maximise your income in retirement, including making the most of the available tax breaks.

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 2010/11 income they must be paid by 5 April 2011. 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, and special annual allowance for those with annual income over £130,000 (see below).

## The anti-forestalling rules

In the 2009 Budget, the Labour Government announced its intention to restrict tax relief on pension savings with effect from 6 April 2011 for people with taxable income of £150,000 or more.

The relief would be tapered down until it reached the basic rate of 20%.

Anti-forestalling legislation was introduced for 2009/10 and 2010/11 to prevent those potentially affected from seeking to circumvent this change by increasing their pension savings (or their employer's contributions) in excess of their normal regular pattern, prior to the restriction taking effect.

Due to changes in the 2009 Pre-Budget Report, there are effectively two slightly different sets of rules. Those rules are complex, but key provisions are:

- Regular premiums, paid at weekly or monthly intervals, continue to qualify for tax relief at up to 50% so long as they remain at the same level as they did at 22 April 2009 (earnings of £150,000 or more) or 9 December 2009 (earnings between £130,000 and £149,999)
- Irregular premiums may qualify but are subject to the special annual allowance, which is a figure of between £20,000 and £30,000, and reduced by the amount of regular premiums paid in the year.

Contact us to discuss your own position as the special annual allowance depends on a number of factors.

As previously stated, in some cases pension premiums may attract an effective 60% tax relief. Otherwise relief will be at the appropriate rate – 20%, 40% or 50%, with 20% at source and the balance through self-assessment.

If the special annual allowance is exceeded, the current rules effectively limit tax relief on the excess to 20%. Employer contributions in excess of the allowance will attract a tax charge on the employee of 30% or 20% as appropriate.

The Coalition Government acted quickly to cancel the previous Government's proposals for pensions tax relief from April 2011. Instead, legislation has been announced to reduce the annual allowance (the effective cap on pension premiums) to £50,000 a year and to reduce the lifetime allowance to £1.5 million.

We can help you with all aspects of financial planning, including a discussion of your spending needs, post-retirement. Please call us for further advice and assistance.

## Reducing the IHT burden

**With increases in the inheritance tax (IHT) threshold failing to keep up with the speed of house price growth over the last 15-20 years, even in the current economic climate people have continued to find that the value of their home has taken them over the threshold.**

IHT is currently payable at 40% on 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:

### Making use of 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 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.

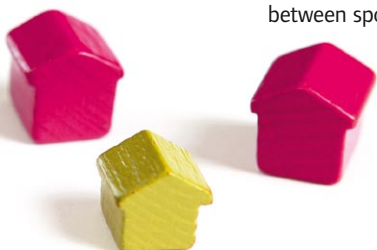
### Lifetime gifts

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).

### Utilising 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.

**Through a course of lifetime planning and action, you can reduce your liability to IHT. Why not contact us to find out more about strategies that could work for you?**



# Extracting profit – save on tax

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

Most of the strategies below relate to limited companies. Company cars and vans are discussed in *How tax-efficient is your company car?* on page two.

Corporation tax is 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 versus 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, which would typically cost 12.8%, whilst salary/ bonuses can carry up to 23.8% in combined employer and employee contributions. However, salary/bonuses are 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 2011 is the last date for paying a 2010/11 dividend, and any higher rate tax on that dividend will not be due until 31 January 2012.

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.

## Alternative options

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 as part of the liquidation process.

Profits not needed for current expenditure could, under current rules, be taxed in the company but subject to capital gains tax, only, on liquidation – with a tax rate perhaps even as low as 10% if Entrepreneurs' Relief is available.

### Incorporation

As the last couple of points may have suggested, 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 'IR35' 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 40p 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. (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.

Care may be needed if the anti-forestalling provisions will affect you (see page three for further details).

### 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 a 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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