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Action before 6 April could save tax!

The end of the tax year (5th April 2009) is quickly approaching. 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, although for some it may be preferable to take action after 5th April.

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!

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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 £40,835) 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.

Putting your investments in order could save tax

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

In the current tax year (2008/09) up to £9,600 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.

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 £21,800) 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.

Save tax on your investments

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.

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.

Financial advice should always be sought to ensure the right investments are made for your circumstances and the risks you wish to take.

Take money out of your company with no tax

If you own shares in your own company, it is worth ensuring that you maximise the amount of dividends you take before 6th April 2009. Providing your own gross income (including the dividend) remains below the higher rate tax threshold in a tax year (currently £40,835), then there is no further tax to pay on the dividend. Hence if your income is currently below the higher rate threshold and your company is making profits then you could save tax by considering paying a dividend prior to 6th April 2009.

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.

Care is required to ensure the relevant documentation is completed and approved prior to the payment being made. 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.

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Will you have paid the maximum contributions into your ISA (Individual Savings Account) before 5th April 2009? 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. Financial advice should always be sought to ensure the right investments are made for your circumstances and the risks you wish to take.

Use your company to pay your pension

It can often be more tax efficient for the company to pay into personal pensions schemes as "employer" contributions, rather than you pay personally into your pension. Why I hear you ask? Well 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 the company making "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.

Company Vans

There is no tax charge for the business or employee where an employee provided with a van for business travel merely takes a van home with no other private use by them or their families. Care is needed to ensure that criteria are met and documented procedures are in place, otherwise the tax break will be lost.

If the relief is lost the employee will be taxed upon a fixed benefit of £3,000 for the van and £500 for fuel provided, irrespective of how old the van is. The business will pay national insurance on these amounts. Vans can include certain luxury pickups, but not all.

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 2009 to save time this year. Please contact us if you would like assistance.

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From April 2009, if you're a mum-to-be you may be able to get a one-off, tax free payment of £190. Although HM Revenue & Customs are not renowned for their generosity they are now offering a "Health in Pregnancy Grant" if your expected delivery date is on or after 6th April 2009. As long as you are 25 weeks pregnant or later you can apply for the grant which will be paid to assist with costs during the later stages of pregnancy. Details can be obtained from the website www.hmrc.gov.uk.

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The rules regarding capital allowances and property underwent significant changes in April 2008. For some property owners the new rules may well be more beneficial to them, however for some the old rules could save them more tax. Unfortunately time is running short for those wishing to take advantage of the old rules.

Tax relief on the cost of a property is often not possible until the property is sold. Within many buildings there are various items of plant, such as radiators, phone points and emergency signs. These are known as "integral plant", on which tax relief may be claimed much earlier.

If you or your business own a commercial property, a nursing home, a hotel or perhaps even a caravan park then it may be possible to get back substantial amounts of tax. We can provide a specialist review which could save thousands in tax.

VAT – Don't ignore the impact on your business

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.

Purchasing a car for the business?

If you are thinking of buying a new car for the business, then whether you buy the car before or after April 2009 could have a significant effect on the annual capital allowance available to the business and ultimately the business tax bill.

It is proposed that from April 2009 the annual capital allowances are to be dependent on the level of CO2 emissions for the car rather than just the cost. If the business operates through a company the changes come into effect on 1st April 2009, whereas the changes come into effect on 6th April 2009 for other businesses.

The proposals suggest that cars below 110 gm/km will continue to be entitled to a full 100% first year allowance, between 110-160 gm/km will get an annual allowance of 20% whereas cars in excess of 160 gm/km will only qualify for 10% in a special rate pool.

The proposals add further complexities to already complex rules, making it more difficult for business owners to make informed decisions. For example, businesses purchasing cars costing more than £30,000 and over 110 g/km CO2 may well be able to claim higher allowances if they acquire the car after April 2009.

However if the car is likely to fall drastically in value and perhaps not be owned for too long, then purchasing it before April 2009 could be much more beneficial. Although if the business is not a company, and the business owner is likely to use the car for private purposes, then purchasing the car after April 2009 may be more beneficial, but not necessarily. If the car emissions are 110 g/km or lower the date the car is purchased may well only depend upon when the business accounting year end is.

As the issues may not be straightforward and there could be significant amounts at stake then please contact us prior to making the purchase.

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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