



12 March 2008

## DO IT BY 5 APRIL! YEAR END TAX PLANNING

### What can you do to save tax before 5 April 2008?

Approaching the tax year end on 5 April is always an occasion to consider what planning can be implemented. This year is no exception and in addition to the usual year end planning reminders, I draw your attention to:

- ◆ company car fuel benefit changes;
- ◆ the implementation of income splitting; and
- ◆ the abolition of taper relief and indexation for capital gains.

This guide highlights a range of planning opportunities to consider before 5 April 2008. Please contact us to discuss any that might be appropriate to your circumstances.

### Tax efficient saving for the future

Pension contributions made on or after 'A-Day' (6 April 2006) are no longer limited to a fraction of earnings. An individual may make unlimited contributions, and tax relief is available on contributions of up to the full amount of his relevant earnings or £225,000 (the annual allowance) if lower. To reduce your 2007/08 income tax liability, individuals must pay pension contributions by 5 April 2008. Employers are able to pay unlimited contributions in respect of employees; however excess 'uncommercial' contributions for 'controlling directors' and their relatives (or even friends according to HM Revenue & Customs!) may not be fully tax deductible. *Additionally, 'over-funding' can lead to penal tax charges, and where funding is being maximised you need to watch 'pension input periods' So speak to us before any large contributions are made.* Consider paying Stakeholder Pension contributions of up to £2,808 (net of 22% tax) for children, grandchildren, and others with low or no earnings aged under 75.

Employees entitled to bonuses, which have yet to be paid, should consider entering into salary sacrifice arrangements. This entails giving up the whole or part of a bonus in return for an *employer* pension contribution thus saving National Insurance. *Advice should be sought to ensure that the salary sacrifice is tax effective.*

The basic rate of income tax is set to reduce from 22% to 20% with effect from 6 April 2008. Consequently a net pension payment of £78 will no longer be worth a gross pension fund contribution of £100 but rather £97.50. Clearly basic rate tax payers should maximise pension contributions in 2007/08 rather than 2008/09 to capture this 2.5% loss.

### Tax efficient investments

The maximum contribution to an ISA for 2007-08 is £7,000 (or £3,000 for cash only ISAs). The investment must be made on or before 5 April 2008 making investments into Venture Capital Trust (annual limit £200,000 - 30% income tax relief) and Enterprise Investment Scheme (£400,000 – 20% income tax relief) investments. The latter can also shelter capital gains (most useful where little or no taper relief is available).

'Film Partnerships' (and similar arrangements for partnerships involved in green technology, research and development etc) can also be used to shelter exceptional profits or earnings, as well as capital gains. *Note, that becoming a partner may affect the rate of corporation tax payable by companies controlled by the partner and his relatives.*



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### Employees

Fuel provided for private use in a company car may not be tax efficient (the tax payable often exceeds the cost of the fuel provided). If it is inefficient this year, consider reimbursing the full cost of the fuel to your employer. To prevent the tax charge you must be required to reimburse the fuel costs as well as actually reimbursing in the same year. If paying tax on private fuel is likely to continue to be inefficient, terminate the arrangement before 6 April to avoid having to consider the question of reimbursement next year. Remember that the car fuel benefit charge is based on a car's CO<sub>2</sub> emissions, and the taxable benefit can vary from £2,160 to £5,040. Charges will be higher in 2008/09 and there will be a number of employees declining this offer of private fuel. For example, the car fuel benefit for a vehicle with CO<sub>2</sub> emissions of 220 g/km and 35 mpg is £5,070. For a higher rate tax payer this equates to tax of £2,028 or at least 14,300 private miles. If your private miles are less you should forgo the private fuel.

### Family business

Generally, payments to a spouse or other family member (with no other income) providing services to a business or company, will be free of tax and National Insurance provided no more than £5,225 is paid in 2007/08. However, to achieve the full National Insurance saving the earner should be paid monthly, unless they are a director, in which case they can be paid in one lump sum by 5 April 2008.

A salary of £5,225 pa (payable monthly) to the spouse in 2007/08 will provide the usual social security benefits, while saving a total of £2,142 in income tax and NICs for a 40% taxpayer (whose business is not operated via a company).

Depending on particular circumstances, shareholder/directors of companies can save National Insurance by taking dividends instead of a bonus.

Changes announced in the October Pre-Budget Report mean that complicated arrangements involving Will Trusts to utilise a deceased spouse's 'nil rate band' may no longer be necessary, as the unused part of a deceased spouse's nil rate band is now available to save IHT on the death of the surviving spouse. Whilst this arrangement may still be valid it may be an appropriate time to update your Will. Why not ask us to have a look at it?

The capital allowance rules change in 6 April. The changes are significant and involve:

- ◆ a reduction in the annual writing down allowance from 25% to 20%;
- ◆ a reduction in the rate applicable to fixtures integral to a building from 25% to 10%;
- ◆ the phased abolition of Industrial Buildings Allowance and Hotel Buildings Allowance from 4 to 0% by April 2011; and
- ◆ the introduction of a new Annual Investment Allowance under which the first £50,000 of expenditure incurred on plant in a year will qualify for 100% tax relief.

Tax could be saved by bringing forward expenditure on plant and machinery, or delaying expenditure until after the changes take place. There is no hard and fast rule – talk to us about how your business will be affected.

If your company carries out research & development work there is an opportunity to claim additional tax relief for accounting periods ending before 31 March 2006. Claims must be filed with HMRC by 31 March 2008.



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The introduction of 'income splitting' legislation in April 2008 may negate in part the benefit of family dividend strategies. There is no such legislation in 2007/08 and the tax benefits from such arrangements should be maximised.

### Other husband and wife planning

Consider transferring income-producing assets to a spouse not currently utilising their personal allowance, and/or lower rates of tax.

Consider transferring assets prior to sale to utilise each spouse's annual capital gains tax (£9,200) exemption but be careful with assets attracting business asset taper relief (BATR) as the relief could be jeopardised. *See below re bed-and-breakfasting.*

### Timing of income

To make the most of tax-free allowances (and lower rate tax bands) take steps to defer or accelerate income. Possible actions include:

- ◆ closing a bank account in order to crystallise the payment of interest;
- ◆ advancing or deferring a salary payment or a dividend from a family company (but paying a dividend before 6 April, is likely to advance the tax payments by a year);
- ◆ make a distribution from a discretionary trust; and
- ◆ realising life insurance gains (it may be possible to avoid paying any tax by making a pension contribution in the same tax year).

### Giving

It is no longer necessary to make cash donations under the Gift Aid scheme by 5 April in order to obtain higher rate relief in 2007/08. You can elect that later donations made before filing your 2007/08 tax return, are treated as paid in 2007/08, provided you file your tax return by 31 January 2009.

Gifts of quoted shares, units in unit trusts, and real property should be made by 5 April 2008 in order to obtain income tax relief this year (there is no carry back facility). For a gift to be fully effective everything necessary to transfer ownership/title must have been done.

### Capital Gains Tax

Realise gains and losses (on shares and unit trusts) to take advantage of the annual exemption of £9,200 for 2007/08. If retaining the shares is a sound investment strategy, consider reacquiring them in a different capacity e.g. in an ISA, a pension scheme or by a spouse. Remember it is no longer tax-effective to sell on one day and buy back the next ('*bed-and-breakfasting*') – but it is possible for the other spouse to repurchase on the same day, or to repurchase within an ISA, thereby minimising exposure to fluctuations in values. Otherwise, you must not repurchase until after the following thirty-day period has expired. *Care is now required, when bed and breakfasting shares to create losses, due to recently introduced anti-avoidance legislation – you may wish to seek advice before taking this route.*



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Capital gains tax taper relief will disappear from 6 April 2008:

- ◆ disposing of assets qualifying for full Business Asset Taper Relief (“BATR”) before 6 April 2008 will mean paying tax at an effective maximum rate of 10% (compared to 18% on a disposal after 5 April 2008);
- ◆ for assets not qualifying for BATR, postponing disposals until after 5 April 2008 may save tax;
- ◆ there is also ‘Entrepreneurs Relief’ which will preserve the benefits of taper relief, but only on qualifying gains up to a lifetime limit of £1 million, on post 5 April 2008 disposals; and
- ◆ combine the benefits of BATR and Entrepreneurs Relief by transferring your company’s shares to a trust (in which the shareholder has a life interest) by 5 April 2008, with the trustees claiming Entrepreneurs Relief on a subsequent company sale.

Indexation relief will also disappear on 6 April 2008, but can be preserved by transferring the relevant asset to your spouse before that date. As indexation is a factor of 1.047 between March 1982 and April 1998 this effectively doubles the cost of an asset for capital gains tax purposes and is a valuable relief to secure.

There is much to consider in planning for the end of taper relief. Each case should be looked on its own. Speak to us if you want save capital gains tax before 6 April.

### Inheritance tax

Consider making use of the £3,000 annual exemption, together with the same amount brought forward from last year if not already used. Remember that each spouse has an exempt amount of £3,000 per annum.

Consider making use of the exemption for normal gifts out of income.

Consider the use of the IHT ‘nil rate band’ (currently £300,000), either by making gifts now either absolutely or into trust if you are undecided as to how your wealth should be inherited.

If you would like to know more please contact:

Alan Curry, Tax Director

Tel: 028 9024 9222 Email: alan.curry@asmhorwath.com

ASM Horwath, Horwath House, 20 Rosemary Street, Belfast, BT1 1QD

*NB. References to husband, wife, spouse etc include members of Civil Partnerships.*