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# Newsletter

## Are you feeling charitable?

When taxpayers make a donation to charity through the Gift Aid scheme, the donation is treated as being made net of basic rate tax, currently 22%. The charity can reclaim this tax. If the donor is a higher rate taxpayer, they may be able to claim additional tax relief.

So, if a taxpayer decides to make a donation of £78, the charity can currently reclaim tax of £22. If you are a higher rate taxpayer, you may be entitled to a further £18 tax relief, making the net cost of donating £60.

### Gift Aid in 2008/09

The basic rate of tax is to be reduced to 20% for 2008/09. One of the consequences of this will be a reduction in the amount of tax relief a charity can reclaim on Gift Aid donations.

So, if a taxpayer decides to make a donation of £78 in 2008/09, the charity will only be able to reclaim £19.50. If you are a higher rate taxpayer, you may be entitled to a further £19.50 tax relief, making the net cost of donating £58.50.

So for a taxpayer it may be worthwhile making donations before the end of the tax year to maximise the value of the gift to the charity. Going forward into next year, taxpayers may want to increase their donations so that charities don't lose out.

## Will you be 'income shifting'?

You will no doubt remember the Arctic Systems case which has been much talked about. The case involved a husband and wife who owned a company 50/50 and, broadly, took the profits out by way of dividends. HMRC had attempted to tax the dividends solely on the husband, as he was performing most of the work which generated the profits of Arctic Systems.

Following HMRC's defeat in this case last year, the government announced in the Pre-Budget Report that they would legislate against similar situations which they regard as 'income shifting'. Draft legislation has now been published to prevent what the government believe is a tax advantage being gained through income shifting.

This legislation will apply from 6 April 2008 to:

- company distributions, usually dividends, and
- profits from a partnership.

It is broadly designed to address similar situations to that found in the Arctic Systems case, where one spouse or civil partner generates most of the business profits but the other receives a proportion of the profit and the couple save tax into the bargain!

### Rules catch more situations

The proposed legislation is rather wider than was anticipated as it refers to an individual who shifts income to another individual. In order for a situation to be caught by the legislation three other conditions have to apply:

- the individual who is shifting income is party to an arrangement or understanding, or can control or influence such an arrangement or understanding
- that individual forgoes income (directly or indirectly), as it has been shifted to the other individual, and

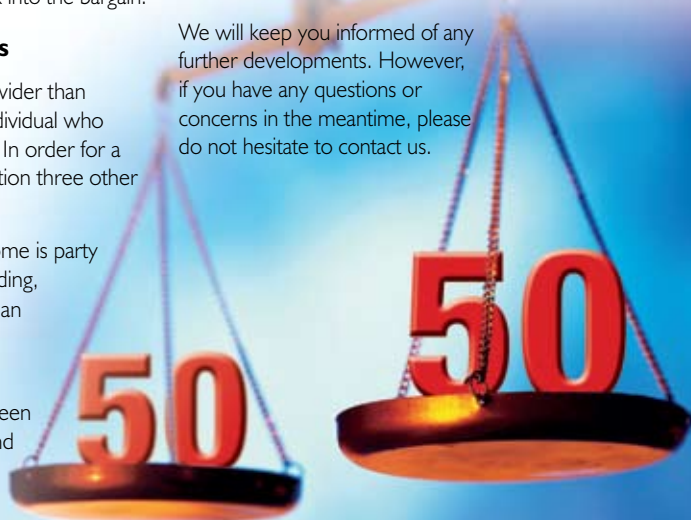
- the individual who is shifting the income has the power to control or influence the amount of the income shifted.

If these conditions are met, the individual who has shifted the income will pay the tax and any national insurance due on the income shifted.

The legislation will not apply to genuine commercial arrangements or situations where, even though income has been shifted, there is no tax advantage gained.

The proposed rules are very widely drafted and may catch many owner-managed businesses involving husbands, wives and other family members, as well as businesses run by non-family members, leaving many with a substantially higher tax bill.

We will keep you informed of any further developments. However, if you have any questions or concerns in the meantime, please do not hesitate to contact us.



# Companies Act 2006 - where are we now?

It was as far back as November 2006 when the new Companies Act 2006 (the Act) received Royal Assent. Early in 2007 the government outlined a timetable for the Act's implementation and at that time three key dates were announced:

- 1 October 2007
- 6 April 2008
- 1 October 2008.

In November 2007 the government made a further announcement that the final implementation date would be delayed until October 2009 and a final timetable has since been published.

A number of the new Act's provisions will however continue to be implemented with effect from 1 October 2008. These include the lifting of restrictions that mean private companies cannot give financial assistance for the purchase of their own shares without going through a formal 'whitewash' procedure.

Broadly speaking the sections of the new Act that deal with company formation and particulars will now not come into force until 1 October 2009. The reason given is that the necessary changes to the systems and processes at Companies House may not be completed in time.

## What's next?

The next key implementation date is 6 April 2008 when provisions relating to company reports, accounts and audits will be introduced. These provisions will generally apply to accounting periods that begin on or after 6 April 2008. At the time of going to print proposals were also in place to increase the financial thresholds which determine when a company or group qualifies as small or medium-sized and also for audit exemption.

The filing deadline for private company accounts will be reduced from ten to nine months and from seven to six months for public companies. Again, at the time of going to print, higher penalties for the late filing of accounts are also proposed. The range of penalties is expected to extend between £150 and £7,500 (currently £100 to £5,000).

The exemption from preparing consolidated accounts for medium-sized groups will also be lost for accounting periods beginning on or after this date.

We will have more detail on these and other changes in future editions.

# Is your company associated?

Over the last two years, it has become clear that HMRC are making efforts to classify more companies as associated with others. The effect of this is that the relevant company tax limits, such as the £300,000 small companies limit, are proportionately reduced by the number of associated companies. This can mean that companies are dragged into higher rates of corporation tax.

For example, William Ltd makes profits of £100,000. The corporation tax rate on these profits would be 20%, a bill of £20,000. If William Ltd had three associated companies, the small companies profit limit available to William Ltd is £75,000 (£300,000/4). This would increase William Ltd's tax bill to £23,125. If the owners of William Ltd had not realised that there were associated companies, HMRC would look to collect the additional tax for the last six years if applicable, an additional bill of say £18,000, plus interest and a possible penalty. If the other three companies had the same problem, this would create an additional bill of over £70,000!

## What makes a company associated?

The importance of associated companies is clear. A company is associated with another company if one of them has control of the other or if both are under the control of the same company or person(s). Companies which are controlled by the same individual or group of individuals are thus included, as well as those controlled by a parent company.

Control is very widely defined and covers all forms of direct or indirect control but, in particular, shares, votes and rights in a winding up (including loans) should be considered.

When you are deciding who controls a company, the rights which a person possesses (or is entitled to acquire) must be taken into account, as well as the rights of certain others which may be attributed to that person. These 'certain others' include:

- a person's spouse or civil partner, parents and remoter forebears, children and remoter issue, brothers and sisters
- a person's business partners
- the rights of certain trustees of a settlement.

So, for example, if Bob and his wife each own a company, these would be associated for tax purposes even though these businesses were not related.

Other things to bear in mind include:

- a company is counted even if it is an associated company for only part of an accounting period
- worldwide associated companies are included
- a company which has not carried on a trade or business at any time during that accounting period can be ignored.

The rules are complex and wide-ranging, so please talk to us if you have any concerns.



# Employment law changes ahead

A new Employment Bill will, if enacted, impose tougher penalties on employers. The overall effect of the Employment Bill will be to strengthen and clarify key aspects of employment law. The Bill had its first reading last December and should receive Royal Assent by summer 2008. The legislation will probably not be implemented until October 2008 at the earliest.

The proposed legislation would:

- increase the fines paid by businesses not paying workers the National Minimum Wage and for certain offences, make employers potentially subject to trial in the crown courts
- make changes to the employment tribunal system.

The Bill also contains provisions on dispute resolution. The Bill aims to repeal the current complex statutory procedures which are a regulatory burden on employers. These are to be replaced with a package of measures to encourage early and informal resolution. It is proposed that these measures will not take effect until April 2009.

We will keep you informed of developments.

## Surely acquiring new skills must be tax deductible?

Employees who want to further their careers may need to develop new skills by means of some additional training. The tax treatment of these costs depends on how they are paid for and how relevant they are to the job.

### Do you pay for training for your employees?

If you do then these are tax deductible for your business. Generally your employees are not taxed on the value of the training, providing it relates to their current role or to some activity they may have to perform as part of their job.

### What if employees pay for the training themselves?

The same does not apply in this case. Unfortunately an employee cannot claim a tax relief for training costs unless the training was actually carried out in the performance of their job, as opposed to preparing them to do the job. So it is highly unlikely that an employee who pays training costs personally will obtain any tax relief for the costs.

### Salary sacrifice

An alternative would be to agree with the employee, in advance of them undertaking the training, for the employer to pay for the training and the employee to reduce their salary to compensate.

	Pre-salary sacrifice £	Post salary sacrifice £
Salary	20,000	18,500
Training costs paid	1,500	1,500
Employer's NI at 12.8%	1,891	1,699
Employee's NI at 11%	1,625	1,460
Employee's tax saved	-	330
Total employer cost	21,891	21,699

As you can see from the above comparison both the employer and employee are better off after the salary sacrifice due to the tax and National Insurance (NI) savings.

It is vital that salary sacrifice arrangements are implemented correctly. Please contact us if you would like to discuss this further.



## Claim your IHT relief

Chancellor Alistair Darling announced in the Pre-Budget Report a change to the way in which the inheritance tax (IHT) nil rate band of £300,000 can be used for married couples and civil partners.

Before the introduction of this change, where an individual died and left some or all of their property to their spouse or civil partner, then that transfer was exempt from IHT. However, on the death of the second spouse or civil partner, only one nil rate band was available, meaning that a nil rate band had been effectively wasted. This is because of the IHT exemption for transfers between spouses or civil partners.

The Pre-Budget change means that the proportion of any nil rate band unused on the first death may be used when the surviving spouse or civil partner dies. In order to agree the amount of nil rate band available it is important to establish the value of the estate on the first death.

### Backdated change

This change is effectively backdated for situations where a spouse or civil partner died before the announcement of the change, as long as the 'surviving' spouse or civil partner dies on or after 9 October 2007.

### Procedures in place but no formal agreement

HMRC have now issued the relevant form and details of the procedure and information required to support the claim but have confirmed that they will be unable to settle any cases until the proposed changes have become law in the Finance Act, probably in July 2008.

Please contact us if you have any queries on this issue.

# Fuel benefit rise

Do you drive a company car or have employees who do? If so then you need to be aware of some significant changes to the benefit in kind rules.

## Background

Where a director, or an employee, is taxable on a company car, then if fuel is provided as well as the car, there is an additional benefit.

The car fuel benefit is linked to the level of the car's CO<sub>2</sub> emissions. The CO<sub>2</sub> emission percentages that apply in determining the company car benefit are used in the car fuel calculation but, instead of applying the percentage to the list price of the car, the percentage is applied to a figure known as the multiplier.

Since 2003/04, the multiplier has been set at £14,400. However, in the Pre-Budget Report it was announced that this multiplier will increase to £16,900 from 6 April 2008, a 17% increase!

## Example

John is provided with a company car and fuel for 2007/08. The car has CO<sub>2</sub> emissions of 209g/km and a petrol engine.

For this car the appropriate percentage is 28%. The cash equivalent of the fuel benefit is £4,032 (£14,400 x 28%).

Under the new rules for 2008/09, the CO<sub>2</sub> emissions percentage rises to 29%, an increase announced some time ago. When this higher percentage is applied to the new figure of £16,900, the car fuel benefit increases to £4,901 (£16,900 x 29%), an overall rise of 21.6% for the employee! And the employer's Class 1A National Insurance, based on the taxable benefit, will also increase.

In order to make a car fuel benefit financially worthwhile, private mileage will need to be substantial. Whilst each computation will vary, due to differing levels of the benefit, fuel costs and fuel consumption of the car in question, as a rule of thumb an employee would need to be travelling at least 10,000 - 12,000 private miles per year to make the benefit cost efficient.

## An alternative?

With such large increases, thought needs to be given by employers and employees as to whether the employee would be better off if they provided their own fuel and claimed a mileage allowance from their employer for business travel.

HMRC publish rates which can be used to reimburse employees tax free for business miles in a company car. These rates increased for journeys undertaken from 1 January 2008.

Engine size	Petrol	Diesel	LPG
1400cc or less	11p	11p	7p
1401cc - 2000cc	13p	11p	8p
Over 2000cc	19p	14p	11p

With such large increases in the car fuel benefit on the way, employers and employees should consider their positions and alternatives before April 2008. Please contact us if you would like to discuss this issue further.

# New anti-money laundering legislation - is your business affected?

15 December 2007 saw the implementation of the new Money Laundering Regulations 2007 (the regulations). The regulations replaced those introduced in 2003, which became effective in 2004.

You may be affected because your own business is part of what has become known as the 'regulated sector'. Alternatively you may have dealings with businesses that are part of this sector. As accountants we are included, as are legal advisers, insolvency practitioners, estate agents, auditors, tax advisers and casino operators for example.

## Personally, how might I be affected?

If you simply have dealings with those in this sector you may now find that, as part of what is known as 'customer due diligence', you are asked further questions about the ownership structure of your business. You may also be asked to provide documentary evidence in respect of your own identity. While you may have become used to providing this type of information when first becoming a client, the new regulations extend the requirements to existing clients.

Of course, if you have been a client for a number of years it may be that the organisation that you are dealing with already has sufficient information to satisfy the legal requirements in this area. Your normal contact will no doubt be in

touch if any further information is required.

## I'm in the regulated sector - how might I be affected?

In the first instance you should look to your supervisory or trade body for further guidance. If you are a:

- high value dealer
- money service business
- trust or company service provider or
- an accountancy service provider

and you are not already supervised by another authority or professional body named in the regulations, then you must register with HMRC. You must also ensure that you have anti-money laundering systems in place. The detailed requirements can be found on HMRC's website at [www.hmrc.gov.uk/mlr](http://www.hmrc.gov.uk/mlr)

In brief the regulations require those affected to have a wide range of systems in place to prevent money laundering and terrorist financing, including:

- customer due diligence and ongoing monitoring
- reporting procedures
- record-keeping
- internal control
- risk assessment and management
- compliance management and
- communication.





Tax is a subject that excites very few people. It is easy to ignore awkward issues involving tax, such as those mentioned in this newsletter. Don't - it could cost you dear. Instead, think of a regular review of your tax affairs (at least once a year) as an opportunity to reduce the taxman's take from your family.

The period leading up to the end of the tax year on 5 April is one of the best times to review your taxes and finances.

Here is a summary of the more important year end tax tips to help you identify areas that should be considered. As always we would be delighted to discuss with you the issues involved and any appropriate action you may need to take.

## Tax saving tips for the family

### Married couples

Marriage gives limited scope for income tax planning but spouses are taxed separately. Therefore, by careful planning, maximum use can be made of personal reliefs and the starting and basic rate tax bands. Given that the personal allowance cannot be transferred between spouses it may be necessary to consider gifts of assets (which must be outright and unconditional) to even up incomes. A transfer of just £1,000 of savings income from a higher rate taxpaying spouse to one with income below the personal allowance (currently £5,225) may save £400 a year.

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 supplement.

Income from jointly owned assets is generally shared equally for tax purposes. This applies even where the asset is owned in unequal shares unless an election is made to split the income in proportion to the ownership of the asset. The exception 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.

### Tip

If you are self-employed, consider employing your spouse or taking them into partnership as a way of redistributing income. This could be just as relevant for a property investment business producing rental income as for a trade or profession.

### Note

Care must be taken because HMRC may look at such situations to ensure they are commercially justified. If a spouse is employed by the family business, the level of remuneration must be justifiable and the wages actually paid to the spouse. The National Minimum Wage rules may also impact.

Also see the note on 'income shifting' at the end of this article.

### Those aged 65 and over

Taxpayers aged at least 65 should consider how to make full use of the available age allowances. The higher allowances are gradually withdrawn once income exceeds £20,900.

### Tip

Consider switching to non-taxable or capital growth oriented investments to avoid losing out on allowances.

### 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 the parents and the child is under 18. In this case the income remains taxable on the parents 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 earnings from the family business for teenage children to use personal allowances, starting and basic rate tax bands.

Remember that children also have their own capital gains tax (CGT) annual exemption (£9,200). It may be better for parents to invest for capital growth rather than income.

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 age 18. The government's initial contribution amounts to £250 (£500 for low income families) with further payments promised 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.

**Continued overleaf.**

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### Non-taxpayers

Children or any other person whose personal allowances exceed their income are not liable to tax. Where income has suffered tax deduction at source a repayment claim should be made. In the case of bank or building society interest, a declaration can be made by non-taxpayers to enable interest to be paid gross.

Remember that the 10% starting rate currently applies to all types of income so that if the only source of taxable income is bank or building society interest the first £2,230 (for 2007/08) is liable at only 10%. If 20% tax has been deducted at source a repayment may be due.

### Tip

Tax credits on dividends are not repayable so non-taxpayers should ensure they have other sources of income to utilise their personal allowances.

### Family companies

If the payment of bonuses to directors or dividends to shareholders is under consideration, give careful thought as to whether payment should be made before or after the end of the tax year. The date of payment will affect the date tax is due and possibly the rate at which it is payable.

### Tip

Remember that any bonuses must be paid within nine months of the company's year end to ensure tax relief for the company in that period.

Alternatively consider the payment of a pension contribution by the company on behalf of an employee since this is tax and national insurance free.

Care must be taken as HMRC are about to legislate against 'income shifting'. The legislation is designed to stop a tax advantage being obtained by diverting income under non-commercial arrangements. The new rules will apply from 6 April 2008.



## Company cars and fuel

Company car benefits are calculated by reference to the CO<sub>2</sub> emissions. The level of business mileage is not relevant. The greener (environmentally!) the car, the lower the charge.

Businesses currently purchasing 'green' cars with CO<sub>2</sub> emissions not exceeding 120 gm/km can generally write off the full cost of the car in the year of purchase. This 100% relief is due to come to an end on 31 March 2008 but may be extended. If the car is used by the proprietor of an unincorporated business the allowances will be restricted to take account of the proportion of private use.

### Tip

Check your position to confirm that the company car is still a worthwhile benefit. It may be better to receive a tax-free mileage allowance that could be up to 40p per mile for business travel in your own vehicle.

Where private fuel is provided, the charge is also based on CO<sub>2</sub> emissions. You should review the arrangements to ensure no unnecessary tax charge arises. If you have opted out of free fuel during the year, the charge will be proportionally reduced. However where you opted in during the year a full charge is applied.

## Employers...the form-filing starts here

**If you are an employer the end of the tax year marks the start of the form-filing season! Here's a reminder of important deadlines for sending information (and money!) to HMRC.**

**19 April 2008** - Interest will run on any 2007/08 PAYE, NIC, student loan and CIS deductions not paid over by this date (22nd for electronic payments).

**19 May 2008** - Employers' year end returns (P35 and P14s) due for submission.

**31 May 2008** - Employees must be provided with their P60 (certificate of pay and tax deducted).

**6 July 2008** - Submission of P11Ds and P9Ds which show details of expenses paid and benefits provided to employees and directors. There is a penalty for submission of late or incorrect returns. Employees must also be given a copy of their P11D/P9D by this date.

**19 July 2008** - Class 1A NIC for 2007/08 on most benefits in kind provided to employees must be paid. Interest runs from this date on late payments.

**19 October 2008** (22nd for electronic payments) - PAYE settlement agreement liabilities for 2007/08 are due, together with Class 1B NIC. Interest runs from this date on late payments.

### Electronic filing and payment

All employers with at least 50 employees must file their end of year returns electronically. Employers with fewer than 50 employees do not have to start online filing until 2009/10 but there are tax-free incentives for early take up. Large employers (those with at least 250 employees) must also pay their PAYE electronically.

Talk to us if you are interested in using a PAYE settlement agreement to account for the tax due on minor employee benefits. It can reduce administrative hassle and save time!



# Investments - are yours tax efficient?

**There is a wide range of investments with varying tax treatments. We take a look at some of the main ones that have special tax rules.**

## WARNING

When choosing between investments always consider the differing levels of risk and your requirements for income and capital in both the long and short term. An investment strategy based purely on saving tax is not advisable.

## Individual Savings Accounts (ISAs)

ISAs provide an income tax and capital gains tax free form of investment. The maximum investment limits are set for tax years. Therefore to take advantage of the limits available for 2007/08 the investment(s) must be made by 5 April 2008. You can invest either in a maxi ISA or mini ISAs. The maxi ISA route gives you the option to invest up to £7,000 (per tax year) either fully in stocks and shares or up to £3,000 in cash with the balance in stocks and shares. Under the mini ISA route, up to £4,000 can be invested in stocks and shares and up to £3,000 in cash. 16 and 17 year olds are able to open (mini) cash ISAs.

## Other investments

**National Savings products** are taxed in a variety of ways. Some, such as National Savings Certificates, are tax-free.

**Single premium life assurance bonds** and 'roll up' funds provide a useful means of deferring income into a subsequent period when it may be taxed at a lower rate.

**The Enterprise Investment Scheme (EIS)** allows income tax relief at 20% on new equity investment (in qualifying unquoted trading companies) of up to £400,000 per tax

year. Capital Gains Tax (CGT) exemption is given on shares held for at least three years.

Capital gains realised on the sale of any chargeable asset (including quoted shares, holiday homes etc) can be deferred where gains are reinvested 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 shares in the VCT. Income tax relief currently at 30% is available on subscriptions for VCT shares up to £200,000 per tax year so long as the shares are held for at least five years.

**Second hand endowment policies (SHEPs)** can be very attractive. Purchasing a SHEP will give an initial cost plus subsequent premiums payable to maturity. On maturity a capital gain arises less the purchase price and premiums paid. It may be possible for each member of a family to use their CGT annual exemption in this way.

Finally, review your **borrowings**. Full tax relief is given on funds borrowed for business purposes. Your mortgage does not qualify for any tax relief.

# Capital gains tax

The government has announced plans to radically change the system of Capital Gains Tax (CGT) from 6 April 2008. The changes include:

- abolishing taper relief and indexation
- introducing a flat rate of CGT of 18% and
- proposals to introduce an entrepreneurs' relief giving a 10% tax rate on the first £1 million of qualifying gains.

## Annual exemption

The first £9,200 of gains made in 2007/08 are CGT-free being covered by the annual exemption. Note that husband and wife both have their own annual exemption, as indeed do children. A transfer of assets between spouses may enable them to utilise their annual exemptions. Consider selling assets standing at a gain before the end of the tax year on 5 April to use the annual exemption. Bed and breakfasting (sale and re-purchase overnight) of shares is no longer tax effective but there are two variants which still work:

- sale by one spouse and repurchase by the other
- sale followed by repurchase via an ISA.

These techniques may also be used to establish a loss that can be set against gains. The timing of such disposals may be critical because losses are used against gains before applying taper relief (up to 5 April 2008).

## Two homes?

If you have two homes then consider making an election so that future gains on your 'main residence' are exempt from CGT. Talk to us if this is relevant for you.

## Other ideas

A capital gain can be deferred if the gain is reinvested in the shares of a qualifying unquoted trading company via the Enterprise Investment Scheme.

A capital loss can be claimed on an asset that is virtually worthless. Where the asset is of 'negligible value' by 5 April 2008 the capital loss can be used in 2007/08.

Moving abroad can take you outside the CGT net. However it is clearly not a decision to be taken lightly and requires very careful planning. Please talk to us if this is an area of interest for you.

No CGT planning should be undertaken in isolation. Other tax and non-tax factors may be relevant, particularly inheritance tax in relation to capital assets.

The CGT rules are about to change significantly from April 2008. Please talk to us soon if there are any issues in relation to CGT planning you wish to discuss.



## National insurance matters

If a spouse is employed by the family business it is probably worth paying earnings in 2007/08 of between £87 (the lower earnings limit) and £100 (the earnings threshold) per week. There will be no employer's or employee's contributions due on the earnings but entitlement to a state retirement pension and certain other benefits is preserved. Note that the thresholds will be £90 and £105 per week respectively in 2008/09.

### Tip

A PAYE scheme would be needed to establish the employee's entitlement to benefits.

For the self-employed there is a requirement to pay a flat rate

contribution (Class 2). If your profits are low you can apply for exemption. The limit for 2007/08 is £4,635. If contributions have been paid for 2007/08 and it subsequently turns out that earnings are below £4,635 a claim for repayment of contributions can be made. The deadline for this claim is 31 December 2008.

### Tip

On the other hand as the contributions are only £2.20 a week, it may be advisable to pay the contributions in any event in order to maintain a contributions record. The alternative voluntary Class 3 contributions are £5.60 a week higher.

## Giving to charity

Charitable donations made under the Gift Aid scheme can result in significant benefits for both the donor and the charity. Currently the charity is able to claim back tax at 22% on any donations and if the donor is a higher rate taxpayer the gift will qualify for 40% tax relief. Therefore a cash gift of £78 will generate a tax refund of £22 for the charity so that it ends up with £100. The donor will get higher rate tax relief of £18 so that the net cost of the gift is only £60.

Tax relief against 2007/08 income is possible for charitable donations made between 6 April 2008 and 31 January 2009 providing the

payment is made before filing the 2008 tax return.

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

It is also 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.

### Tip

The tax a charity can reclaim on gifts and donations reduces to 20% from 6 April 2008. You may wish to increase the amount of your Gift Aid donations as charities will be worse off.

## Pension contributions

There are many opportunities for pension planning but the rules can be complicated. The rules include a single lifetime limit (£1.6 million in 2007/08) on the amount of pension saving that can benefit from tax relief as well as annual limits on the maximum level of pension contributions (£225,000 for 2007/08).

Tax relief is available on pension contributions at the taxpayer's marginal rate of tax. Therefore a higher rate taxpayer can pay £100 into a pension scheme at a cost of only £60. Indeed for some individuals, in particular where income consists largely of dividend income, the marginal rate of tax

maybe as high as 44.5%. For such an individual the true cost of a £100 pension contribution is £55.50. With the inability of the state to provide adequate levels of retirement pensions widely acknowledged, it is more important than ever to provide for a secure old age.

All individuals, including children, can obtain tax relief on personal pension contributions (not retirement annuity premiums) of £3,600 (gross) annually without any reference to earnings. Higher amounts may be paid based on net relevant earnings (NRE).

Individuals can make pension contributions of up to 100% of their NRE in a tax year. Contributions must be paid during the tax year. There is no facility to carry contributions back to the previous tax year.

Directors of family companies should, as an alternative, consider the advantages of setting up a company pension scheme or, alternatively, arranging for the company to make employer pension contributions. If a spouse is employed by the company consider including them in the scheme or arranging for the company to make reasonable contributions on their behalf.

