

paylesstax

2011 bonus edition



The end of the tax year is near, take action now and save yourself tax!

With the end of the 2010/2011 tax year fast approaching, you can save yourself tax by taking simple and easy planning steps now. In order to achieve some of these tax savings you will need to take action before 5th April 2011, so if you don't want to miss these opportunities don't wait a second longer!

This edition of 'Pay less tax' focuses on opportunities to save tax that you may wish to think about implementing before the end of the tax year. Planning your tax affairs is always a valuable exercise when your hard earned cash is at stake, so make the most of your time and plan now.

As everyone's circumstances are different we would be delighted to talk to you about how we can help you save tax and the impact upon your personal circumstances.

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

Drive into 2011/2012 in style!

In April 2011 the rules concerning company cars are being completely overhauled. By looking at your choice of company car now, you can ensure that the changes don't mean that you pay additional Income Tax on your benefits in kind.

From April 2011 the £80,000 restriction on the price of the car is removed and the reduction in benefit for different types of fuels is removed. This could mean that simply by keeping your existing company car you could be paying substantially increased income tax without even realising it!

Now is the time to review whether or not having your company to pay for your private fuel would be a better alternative to paying for the fuel yourself. By comparing your mileage, both business and private to the amounts of tax and fuel costs you could determine which would leave you better off in real cash terms.

As of 1st December 2010, HMRC have also introduced new advisory rates for fuel payments for companies to pay to company car drivers. The new rates are as advised below:

Engine Size	Petrol	Diesel	LPG
1400cc or less	13p (12p)	12p (11p)	9p (8p)
1401 to 2000cc	15p (15p)	12p (11p)	10p (10p)
Over 2000cc	21p	(16p)	(14p)



Simply being aware of the new rules and rates can mean that you are able to make an informed decision when it comes to choosing company cars and meeting the fuel costs.

Dividend Planning

When it comes to dividend planning and remunerating shareholders of a company, rarely is enough thought given to the tax impact that these dividends could have. By simply planning your dividends early you could make a big impact to the amount of tax you pay and importantly, the timing of when you pay the tax.

One area to consider is paying dividends to take the individuals income up to the higher income tax threshold (£43,875 after personal allowance for 2010/2011). This will mean that the individual receives the dividend free of tax. If dividends taken above this threshold then, depending upon the level of personal income, from 25% to around 36% of the dividend paid will be lost in tax. When implementing this type of planning, care should be taken to ensure that this does not reduce the amount of any Tax Credits claim available.

Simply by timing the dividend more efficiently, you can delay the payment of income tax. For example, delaying the company dividend of £50,000 on 5th April 2011 to 6th April 2011 you can delay the payment of income tax by a year. This gives the individual the maximum amount of time before the payment of tax.

Dividend skipping is also a useful way for a higher rate tax payer to avoid making payments on account for Income Tax. For example, Graham usually takes out £60,000 a year from his company in the form of dividends, by having a year where he only takes out dividends up to the higher rate threshold he can avoid having to make payments on account throughout the tax year leaving him in a better cash flow position.

Maximise your capital allowances claims

With the tax year end coming up fast you should consider the timing of purchases so as to maximise the capital allowances available. By bringing forward capital expenditure into the current tax year you can increase the amount of relief available and reduce your income tax significantly. With the changes to the annual investment allowance such that for 2010/2011 and 2011/2012 the amount available is £100,000 for each tax year, business owners should consider utilising these amounts before the Annual Investment Allowance reduces to £25,000 for 2012/2013.

In addition, claiming the annual investment allowance may also impact upon your Tax Credits Claim for the year. Given that the Tax Credits regime is becoming less generous, you should consider maximising your claim now and see the cash flow and tax advantage utilised earlier.

With Government incentives for energy efficient plant and machinery, environmentally friendly vehicles and energy efficient plant, you could get 100% first year allowances on a whole host of items purchased through the business.



Pension Planning

With a new tax year fast approaching and many tax planning opportunities hindered by the draft legislation introduced on 9th December 2010, many people will once again be looking at pension planning as a tax efficient way of extracting funds from a company.

With changes to the pension regime including anti forestalling measures and carry forward provisions for unused annual exemptions. The question is simply how much do I contribute to my pension fund?

Unfortunately the answer to this is not very easy to establish as we move from one set of rules to another. We can work with you to determine the optimum amounts to be contributed to your pension fund this tax year.

Childcare Vouchers

With the start of the new tax year looming, the changes to employer supported childcare will soon come into force. From 6th April 2011, employees entering into the scheme will have to undergo an earnings assessment to determine how much they will be able to benefit from employer provided childcare vouchers. The amount of voucher that each employee will be able to benefit from will be as follows:

- Basic Rate Tax Payers - £55 a week
- Higher Rate Tax Payers - £28 a week
- Additional Rate Tax Payers - £22 a week

Employees already in the scheme at 6th April 2011 will still be able to receive £55 a week. In order to maximise the amount available to employees, ensure that they start receiving £55 per week before 6th April 2011. As an employer, you will receive a tax deduction for the cost of providing the childcare vouchers and administering the scheme as well as the vouchers being non taxable up to the limits prescribed for the employee.

How much of your gain are you getting?

With increased capital gains tax rates and a maximum of 28% payable on gains, do you know how much you're actually going to get when you make a capital gains disposal? With potential tax rates of 10%, 18% and 28% for 2010/2011 and tight rules for entrepreneurs relief there are several areas you can work on to increase the amount of cash that you receive after the capital gains tax payable.

By reviewing your assets before their disposal, you may be able to maximise the amount of Entrepreneurs Relief available on each disposal. With a maximum saving available of £900,000 being proactive could save you thousands of pounds. You can also consider the timings of disposals to ensure that you match losses available with gains and to ensure that you make all claims available to you.

You can also make negligible value claims for shareholdings which have become virtually worthless, reducing the tax payable on other gains that you have made in the year and saving you money.

It is also worth considering who owns the assets before the sale; if at all possible ownership should be split between husband and wife to ensure that both annual exemptions of £10,100 (2010/2011) are used and that the lower rates of capital gains tax are utilised by the spouse with the lower income.

The transfer of asset shares between husband and wife can be made free of Capital Gains Tax or Inheritance Tax so should be considered before the disposal of assets to reduce the tax payable as much as possible. Care should be taken not to jeopardise more generous reliefs in the transfer.

Can you trust trusts?

Many people are concerned about Inheritance Tax Bills on death, with a higher rate of 40% payable this can be an unexpected burden on a loved one's death. Agreeing valuations, paying over tax and paying for the advice with regards to this administrative burden, when there are options to avoid this seems an unnecessary headache!

At a time where trusts are being targeted by higher tax rates, anti avoidance and the issues of access and control over assets held means that trusts are increasingly problematic. Business Property Relief can be used to maintain control over assets, maintain an income stream and ensure the assets will be protected from inheritance tax on death. Provided that business interests or assets are held at the time of death, have been held for longer than 2 years and are of a qualifying nature, there may be no inheritance payable on them at death.

When considering investments which may qualify for Business Property Relief, an independent financial advisor should always be consulted.



Sole Trader?

If you're a sole trader with profits reaching higher limits and paying Income Tax at 40% or even 50%, then you need to consider whether operating as a Limited Company might be better for you. With Corporation Tax rates reducing and the Income Tax rates increasing, having the profits taxed at a lower level could leave you more options for distributing the profits.

With the possibility of incorporation relief available on the transfer of assets, or if the assets qualify, utilising the increased levels of Entrepreneurs Relief to create a gain taxed at just 10%, leaving a directors loan account to be drawn down tax free in coming years. You should consider your options now to see when would be the best time to incorporate your business.

At a time when cash is hard to come by and expenses are increasing, you could consider whether your choice of accounting period would save you money. By making your accounting period coincide with the tax year, you could utilise any overlap profits created to reduce your tax payable. This simple planning tip could mean that you pay less tax now, rather than when you cease trading.

Quick Tax Tips

Get the accounts right, get the tax right?

Misunderstanding the basis of tax and accounts can be a costly mistake to make when it comes to dealing with an enquiry from HMRC! Putting through the company bonus provision after the year end could mean that the amounts aren't tax deductible, whether they're paid within 9 months of the year end or not!

Make sure that your provisions meet the accounting requirements within FRS 12 by making sure that your provisions meet the following conditions:

- 1) There needs to be a present obligation at the year end
- 2) The obligation arises as a result of a past event
- 3) It is likely that this will result in a transfer of economic benefits
- 4) The amount of expense can be reasonably estimated

With a greater focus on enquiries and scrutinising tax returns, the first questions that are asked will always include when salaries and bonuses are paid and if provisions are correct in the first place!

Obtain Major Income Tax and Capital Gains Tax Relief by Investing in EIS

The Enterprise Investment Scheme puts together cash investors with new companies wanting to raise finance and is a means to obtain substantial tax relief on those investments. Investments of up to £500,000 qualify for Income tax relief at 20% - this could mean a cash saving of up to £100,000!

The investment can be used as a means to reduce a substantial income tax burden in the previous year by using the relief carry back facility. There is the possibility to spread the investments over a number of new companies and these companies are assessed and graded in accordance with their potential returns. Many have seen substantial growth in the investments and provided the investment has been held for 3 years the gain is free from Capital Gains Tax following any subsequent sale.

The investment can be a means of delaying a potential Capital Gains Tax charge on the sale of a chargeable asset by reinvesting the proceeds into an EIS investment and making a claim to delay the chargeable gain. It is also a means of obtaining Inheritance Tax relief if the investment is held in excess of 2 years.



Giving Away Your Inheritance?

Inheritance Tax is currently payable at 40% on estates exceeding £325,000. By using your annual IHT Gift Allowance each year you could potentially be saving £1,200 every year from the Inheritance Tax chargeable on death.

The gift allowance has remained at £3,000 for 20 years and gifts can be made to any person of your choice. Any allowance not used in the previous year can be utilised in the following year making a potential £6,000 available for gifting. Gifts on marriage are also exempt from IHT and these too have potential savings at 40% - the exemption depends on your relationship with the couple and range from £1,000 to £5,000.

Smaller Gifts can be made up to £250 to any number of individuals in a tax year. In addition to the gift allowance is a little used Inheritance Tax exemption - the Regular gifts out of income allowance. Provided these gifts are made out of your income, after tax has been deducted and not out of your capital they are completely exempt from Inheritance tax. You must be able to demonstrate that they are made on a regular basis, for example, the monthly payment of an insurance policy and that you have sufficient income remaining after making the gift to maintain your normal lifestyle.



Careful Investment could generate a substantial Tax Free Fund

By utilising the potential of a tax free ISA each year you could generate an investment pot which could effectively grows faster than taxable investments! All of the investment has the potential for growth with nothing paid over to the Tax Man - this could save up to 50% tax on the income in some cases!

The limit for the year ending 5 April 2011 is £10,200 with up to £5,100 being available to put into a cash ISA and the remainder being in a Stocks and Shares ISA. The interest on the cash element and the growth on the stocks and shares are free from income tax and capital gains tax and the full amount can be retained in the pot.

In order to achieve benefit from a cash ISA you must be 16 years of age and for the Stocks and Shares investment you must be 18 years of age and must be UK resident for UK Tax Purposes.

And.... look out for the Junior ISA - coming in the autumn of 2011! In a move away from the long standing HMRC position parents are going to be allowed to invest tax free on behalf of their children. More on this in the Pay Less Tax Autumn edition.



We can help

We only have space in this newsletter to focus on some of the main tax saving opportunities, however there are many more to consider. We can guide you through the complexities of the legislation and help you to pay much less tax.

So, if you would like to discuss ways in which we can help you to make tax savings, or if you would like to discuss any of the issues identified in this edition of 'Pay Less Tax' please do not hesitate to contact us.

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