

paylesstax

2008 bonus edition

Action before 6 April can save tax!

The end of the tax year (5th April 2008) 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!



● QUICK TAX TIP ● QUICK TAX TIP ● QUICK TAX TIP ●

Have you made the most of your pension?

Have you made the most of your pension contribution tax allowances this year? In addition to your payments (whether you pay tax or not) HM Revenue & Customs will contribute a further 28p for every £1 you pay into the pension policy. Higher rate taxpayers could get at least a further 23p for every £1 of their pension contribution in tax relief, when calculating their tax bill.

● QUICK TAX TIP ● QUICK TAX TIP ● QUICK TAX TIP ●

Taking dividends?

If you own shares in your own company, have you maximised the amount of dividends that can be taken on or before 5th April 2008? Providing your own gross income (including the dividend) remains below the higher rate tax threshold in a tax year (currently £39,825), there is no further tax to pay on the dividend. Care is required to ensure the correct documentation is completed and approved prior to the payment being made.

Proposed legislation is being brought in from 6th April 2008 which could have a major impact on family owned businesses and dividends paid after then. The Treasury believe that dividends should be based upon the "market value" of the service provided by family members, which will be difficult to establish let alone apply. Action may be required for some businesses to take account of the new rules.

Get tax back on business premises!

The rules regarding capital allowances and property have become quite complicated over the years and the government are looking to simplify things whilst reducing the allowance rates from April 2008. This simplification and reduction in rates may serve to increase the tax burden on property owners. However if you or your business own a commercial property, a nursing home, a hotel or perhaps even a caravan park then it may still be possible to get substantial amounts of tax back before the rates change.

Tax relief on the cost of a property is often not possible until the property is sold. However it may be possible to get tax relief for part of the cost of a commercial property much earlier. 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 each year.

From April 2008 the government are looking to issue a definitive short list of "integral features" on which allowances can be claimed, which may well reduce the amounts that can be claimed on some properties in the future. Our specialist review now could save thousands.

If you are buying a property then taking into account what capital allowance claims are possible could have a serious impact on the deal. If the seller has not claimed these in the past, then the purchaser may be able to claim allowances on a much higher figure than the seller ever could. From April 2008 where the property includes energy saving or environmental electrical or water systems then enhanced capital allowance claims of 100% may be possible.

● QUICK TAX TIP ● QUICK TAX TIP ● QUICK TAX TIP ●

Shattering the tax myths – Mortgage repayments can wipe out the tax bill on my rental property!

Tax myths are creating problems in an already confusing tax system. In each edition we will unravel a well known tax myth and give you the truth. The myth for this edition is that “mortgage repayments can wipe out the tax bill on my rental property”.

Unfortunately this is not totally true. Assume that you have a property that you rent out fully and have a mortgage on it.

First of all we need to confirm that you took out the mortgage to buy this property. If this mortgage was taken out to buy your own home, but is secured on a property that you rent out, then no claims can be made against the rental income.

On the other hand if you took out the mortgage to purchase the rental property, then yes you can claim the interest paid on the mortgage as an expense against the rental income of the property. However you cannot claim the capital loan repayments as an expense.



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.

Company Cars

Have you considered a car for the business with low carbon dioxide emissions, or perhaps bi-fuel? Not only could you get the full cost of the car allowed against the business profits, but if used for private purposes then the employee suffers the lowest possible tax benefit. It is surprising what cars now have low emissions. A list of cars can be found at www.comcar.co.uk. Cars with low emissions may be a very cheap way of providing family members with cars and saving tax.

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. Act before 5th April 2008 to save time this year. Please contact us if you would like assistance.

Buying new plant for your business?

The rules regarding plant and machinery seem to become more complicated every year, creating uncertainty as to what are the most tax efficient options. This year is no exception.

First year capital allowances on plant and machinery for small and medium businesses will disappear in April 2008. It is proposed to replace this with a new 100% allowance. The new allowance will be available on up to £50,000 invested in plant and machinery and will be known as an ‘Annual Investment Allowance’. The new allowance is to be available to all businesses, irrespective of size, whether a limited company or not.

Businesses are to be free to choose how best to allocate the allowance against their new plant, and may include long life assets and plant integral to a building, but not cars. For some businesses it may well be worth delaying purchasing new plant to take advantage of the new allowance but care is needed as delaying the purchase will not suit all.

100% enhanced capital allowances will continue to be available for energy-saving or environmentally friendly plant. However it is proposed that companies purchasing such plant after 1st April 2008 and making a trading loss at the time may be able to ease their cash flow by reclaiming a tax repayment, on their investment in the plant, in the form of a tax credit. Some companies may prefer to delay investing in such plant until 1st April 2008, if a tax repayment can be claimed. However this is unlikely to suit all and for many companies it may well be more preferable to ensure the new plant is acquired sooner rather than later.

● QUICK TAX TIP ● QUICK TAX TIP ● QUICK TAX TIP ●

Use the losses on shares

Losses on shares can still be created by selling them personally and purchasing them back within an ISA, or by selling shares personally and your spouse buying them. Losses can then be set against gains on other assets in the same year, or later, to reduce Capital Gains Tax.

The clock is ticking for business, land and property owners

From 6th April 2008 it is proposed to scrap the taper relief system brought in under Gordon Brown and replace it with a flat 18% rate of tax. This is expected to create an extra tax burden for:

- Business owners who have owned their business for more than 2 years,
- Employees with share options,
- Many commercial property owners,
- Individuals holding loan notes following the sale of a private trading company, or
- Land owners where the value of the land has increased significantly

This has resulted in fierce opposition from a number of groups and a rethink of the proposals by the Chancellor, Alastair Darling. At the time of going to press we are still awaiting his conclusions.

Options under consideration apparently include giving business owners the right to claim the current rate of capital gains tax even if they do not sell their businesses until January 2009, or perhaps introducing a possible relief for retiring business owners.

What is certain is that taper relief will go and many owners of business assets are likely to pay more Capital Gains Tax when they come to sell up. It may be possible to reduce the impact of the changes, providing action is taken prior to 6th April 2008.

● QUICK TAX TIP ● QUICK TAX TIP ● QUICK TAX TIP ●

Max out your ISA

Will you have paid the maximum contributions into your ISA (Individual Savings Account) before 5th April 2008? You may ask why? Well investments in ISAs are exempt from Income Tax and Capital Gains Tax and are well worth thinking about, often instead of ordinary deposit accounts.

Currently up to £4,000 could be invested into a shares Mini ISA and £3,000 into a cash Mini ISA, (or up to £7,000 for a Maxi ISA) each tax year. The distinction between Maxi and Mini ISA's will disappear from 6th April 2008.

Northern Rock customers who closed their ISA's between 13 and 19 September 2007 inclusive still have time to restore the tax free status prior to 5th April 2008. Financial advice should always be sought to ensure the right investments are made for your circumstances and the risks you wish to take.



Putting your investments in order can save tax!

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

In the current tax year (2007/08) up to £9,200 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.

Couples, have you considered putting savings or shares 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 £20,900) 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.

Get tax back on your investments!

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.

Income Tax relief of 20% could be enjoyed on investments up to £400,000 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 but the tax savings could be substantial.

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

We can help

The tax rules are constantly changing, as the proposed changes to Capital Gains Tax have proved. 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."



● QUICK TAX TIP ● QUICK TAX TIP ● QUICK TAX TIP ●

Donated to Charity?

If you have or intend to give to charity this 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 £39,825) then in addition you could get tax relief of 23% on the donation yourself, 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 23p.

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.

Disclaimer

This pay less tax report is provided for clients of AVN accountants and has been written for general interest. No responsibility for loss occasioned to any person acting or refraining from action as a result of any information contained in this edition is accepted by the authors, AVN Tax LLP, or any associated businesses. In all cases appropriate advice should be sought before making a decision. The content is correct at time of going to press.