

Do you want to pay less tax?

Many people are paying far too much tax; often through lack of knowledge of the tax rules. This problem is compounded by the constant changes in the tax rules. We aim to rectify this by ensuring that we highlight some of the tax traps that can be costly if you are not aware they are there and to give you an idea of possible tax saving opportunities in certain situations.

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!

This special edition concentrates on the main changes brought in by the 2006 Finance Act.



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For those investing in shares one way to take advantage of the annual capital exemption (currently £8,800) is to sell shares and ensure that the total gains for the year are below the annual capital exemption. The uplift in value would be totally tax free.

Previously it was possible to sell shares and buy them back on the same day and secure the tax free gain. These days there must be a period of 30 days between the sale and buy back. Alternatively a spouse can instantly repurchase shares sold on the same day to secure the tax free gain and reduce the risk from market movements.

Investing your hard-earned money tax efficiently

Individual Savings Accounts (ISAs)

The annual limits for investing in ISAs have been set until 5th April 2010. Investments in ISAs are exempt from Income Tax and Capital Gains Tax, making them worth considering. Each tax year (6th April to 5th April following) up to £7,000 could be invested in a "Maxi ISA", which is a combination of holding cash and investing in shares. Alternatively should you prefer only to invest in cash or shares separately, then up to £3,000 or £4,000 per tax year can be invested respectively. As with any investment, financial advice should be taken.

Venture Capital Trusts (VCT's)

Income Tax relief of up to 30% can be obtained for investments made into a VCT, up to a limit of £200,000 in any tax year from 6th April 2006. Not only can you get 30% of your investment back in tax relief, but any dividends received on the qualifying investment will be paid to you free of tax and you may not pay any Capital Gains Tax when you come to sell the shares. As with any investment care and financial advice should be taken.

Enterprise Investment Schemes (EIS)

Income Tax relief of up to 20% can be obtained for investments made into an EIS company, up to a limit of £400,000 in any tax year from 6th April 2006.

On top of the 20% tax rebate on your investment, Capital Gains Tax may be deferred into an investment in an EIS company. As it is possible to set up and operate your own EIS company, they can be used as a way of deferring Capital Gains Tax. Financial advice should be taken before considering any investment.

Real Estate Investment Trusts (REITs)

It is proposed that from 1st January 2007 certain companies on the stock exchange that invest in property will be able to be classed as Real Estate Investment Trusts. Providing certain conditions are met, including paying out to shareholders 90% of rental profits, then the company will not suffer any corporation tax. Instead the shareholders will receive the profits net of basic rate tax and be treated as receiving rental income. This will allow investors to effectively invest in property using certain companies on the stock market and only suffer tax at their personal rates on the rental profits. Financial advice should be taken before considering any investment.

Changes for businesses

Mobile phones for employees

In the past employers have been able to provide mobile phones (on business contracts with the phone provider) to employees or their families and allow them to make private calls without there being a benefit in kind on the employee. From April 2006 this exemption has been restricted to one mobile phone per employee.

However where the employer was already providing mobile phones to the employees and their families prior to 6th April 2006 they will still be able to do so without there being a tax bill on the employee.

Computers made available for private use

For a number of years employers were able to provide computers and equipment up to a value of £2,500 to employees for them to use personally. From April 2006 this exemption has been withdrawn.

Going forward, computers can still be provided to employees, but only for business purposes. If available for private use then the employee may suffer tax on a benefit in kind.

Are you claiming sufficient Capital Allowances?

First year capital allowances on expenditure incurred on plant and machinery, has increased to 50% for 12 months from April 2006 (1st April for companies, 6th April for other businesses) for both small and medium businesses.

Businesses are classed as small or medium sized if they satisfy two of the following conditions;

- Turnover less than £22.8 million
- Assets less than £11.4 million
- Not more than 250 employees

The tax rules regarding capital allowances have become very complicated over the years, and as a result there are many tax saving opportunities to consider. Investing in certain energy efficient plant, low emission cars, or perhaps certain plant designed to use less water for example can result in up front 100% tax relief on the cost.

Other tax saving opportunities can arise when a business property is acquired or improved. There may well be opportunities to claim relief for capital allowances on items that would seem to be part of the building.

Smaller companies now have increased tax bills

Companies with profits below £50,000 will now pay up to an extra £1,900 corporation tax each year. Despite the changes some company structures may well remain tax efficient. Talk to us if you would like a review of your corporate structure.

Do you want to save £114,000 in tax?

Despite all the press coverage about how unfair inheritance tax is the good news is that it doesn't have to be a problem for you or your family. In fact, we may be able to help you to save £114,000 in inheritance tax – and perhaps more.

The key to those sorts of savings is often using tax-efficient trusts. The next few articles gives you an update on the very latest tax treatment of trusts following the 2006 Budget.

And if you don't have time for the detail, here is a one sentence summary of our advice: if your estate is likely to be worth more than £285,000 talk to us now.

New Trusts

From 22nd March 2006 Inheritance Tax will be due on all new trusts (subject to a few exceptions).

There will be a:

- Potential 20% Inheritance Tax charge on transferring assets into Trust during lifetime
- Potential 40% Inheritance Tax charge on transferring assets into Trust on death
- Potential 6% Inheritance Tax charge every 10 years on assets in Trust
- Potential fraction of 6% Inheritance Tax charge on assets transferred out of trust

These potential charges are subject to any unused Nil Rate Inheritance Tax bands and tax relief's being available. Despite the above changes the normal rules for Income Tax and Capital Gains Tax for trusts will continue to apply.

The main exceptions to the new Inheritance Tax charges are:

- Trusts for bereaved minors, where on attaining 18 the beneficiary is fully entitled to all the trust assets and any income.
- Trusts for those bereaved aged 18-25, where the beneficiary becomes entitled to all the trust assets and income by age 25. Maximum Inheritance Tax charge will be 4.2%.
- Immediate post-death interest trusts, where they are created on death for a life interest.
- Trusts for disabled beneficiaries, are exempt from the rules.

● HOT OFF THE PRESS ● HOT OFF THE PRESS ● Have you got a tax efficient will?

Nil Rate Band Discretionary Trusts included in Wills continue to be very tax efficient for married couples and civil partners. Correctly drawn up Wills and correctly operated Trusts could potentially save a married couple, or a civil partnership up to £114,000 in Inheritance Tax at today's rates, by ensuring that both Nil Rate Bands are utilised.

Existing A & M Trusts

Accumulation and Maintenance trusts in existence at 22nd March 2006 will continue under the old rules until 6th April 2008 and will not form part of the beneficiary's estate.

However if assets are introduced into the trust after 22nd March 2006 then the trust will be caught under the new rules.

From 6th April 2008 the existing trusts will follow the new rules and be liable to the 6% Inheritance Tax charge every 10 years, based upon the date the trust was originally formed.

If all the trust assets and income pass to the beneficiary when 18 then it will continue under the old rules. (If transferred by 25 then it can continue under the old rules, subject to 4.2% Inheritance Tax on transfer). Existing trusts have until 6th April 2008 to change, should they wish to continue under the old rules.

Existing IIP Trusts

Interest In Possession trusts in existence at 22nd March 2006 will continue under the old rules. The assets within the trust will continue to be treated as part of the beneficiary's estate and enjoy a Capital Gains Tax free uplift on death.

If the benefit comes to an end before 6th April 2008, and is replaced by a further Interest in Possession then it will continue to be taxed under the old rules.

If the benefit comes to an end and the assets come out of trust then the new rules will not apply.

If the benefit comes to an end and is replaced by another type of trust or comes to an end after 6th April 2008 and is replaced by an Interest in Possession Trust then the new trusts will fall under the new rules. However if the existing life beneficiary's spouse (or civil partner) takes over the life interest then the trust will continue under the old rules.

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Yet more trusts can be used to delay tax liabilities

Under the new Trust rules a Capital Gains Tax relief, normally only available for assets going in and out of a Discretionary Trust, will now be available in certain circumstances for assets going into and out of other trusts caught by the new rules. The relief allows Capital Gains Tax on all assets going into / coming out of the trust to be deferred. With careful planning some assets can therefore be moved in or out of a trust without any tax becoming payable.

Bare Trusts unchanged

Bare trusts will not be affected by the new charges. A bare trust is the simplest form of trust, and can be where someone acts as nominee for a named beneficiary.

One example is a bank account set up by one person as nominee for another, typically a parent for a child. However care is required as the beneficiary is fully entitled to the assets if they are 18 or over and there are possible Income Tax issues for the parent where the beneficiaries are their children and under 18.

Trusts for disabled beneficiaries

Trusts for the disabled remain exempt from the new Inheritance Tax charges, and the assets continue to be part of the beneficiary's estate. However care is required here as the rules are complex, the definition of disabled is quite narrow and bereaved minors now follow different rules.

Providing the trust qualifies then the beneficiary's allowances and tax bands may be used to calculate the income and Capital Gains Tax bills for the trust, which could be a significant tax saving for some.



Trusts for bereaved minors

Trusts for bereaved minors are trusts set up for the **benefit of a person under 18 where at least one of their parents or a person who had parental responsibility has died.**

There will be no exit charges when the assets are transferred to the child up to 18 years of age. Between 18 and 25 an Inheritance Tax charge will arise, up to a maximum of 4.2%.

Capital Gains Tax holdover relief will be available where assets leave the trust on or before the beneficiary becoming 18, thereby avoiding any tax at that point. Should the beneficiary die before becoming 18 then there will be a capital gains tax-free uplift for the assets in trust.

Immediate post-death interest

An "immediate post-death interest" is where an Interest In Possession Trust is created under the terms of a Will or under Intestacy Rules, and is neither a trust for a bereaved minor or a disabled beneficiary.

If the interest is left to a surviving spouse (or civil partner) there will be no Inheritance Tax on first death. The trust will not be liable to the Inheritance Tax charges.

The surviving spouse can make a gift of their interest to a bereaved minor's trust without any Inheritance Tax, providing they survive the gift by 7 years.

Investments using Trusts

A number of investment products currently use Interest in Possession Trusts. The new rules do impact on such investment products. Whether or not you are affected could depend not only upon the investment, or how much you intend to invest but also your own circumstances.



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Life assurance written in Trust

Regular premium life assurance policies written in trust prior to 22nd March 2006 are not caught by the new rules, unless there are significant changes to the policy. If there is an increase in premiums or if the beneficiary is changed after 5th April 2008, then the policy could be caught under the new rules.

Policies set up after 22nd March 2006 will be subject to the new rules and the tax charge will depend upon the value in trust. These are still useful to help fund an Inheritance Tax liability and may be able to make use of the exemption for expenditure out of surplus income.

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Protection can be cheap

An Enduring Power of Attorney (EPA) will enable you to nominate a trusted individual to deal with your financial affairs in the unfortunate event that you cannot deal with them yourself, either physically or mentally. This can be a lot cheaper and quicker than having to apply to the Court of Protection. It is always better to have one and not need it, than need one and not have it!

We can help

Unfortunately the recent Finance Act has brought more complexity to already complicated tax rules. We can help if you already have a trust, but action may be needed sooner rather than later. There are still tax saving opportunities and benefits for considering trusts, which we will be delighted to assist you with.