paylesstax

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Do you want to pay less tax?

It's fast approaching the end of another tax year. So now is a good time to do some tax planning if you want to pay less tax. Don't wait until you receive your 2006/07 self assessment tax return... it'll be too late then.

This edition of 'Pay less tax' contains some key tax planning tips to think about as part of your pre-year end tax planning.

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!

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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 tax direct from the government of 28% on your donation.

If you are a higher rate taxpayer then in addition you could get tax relief of 23% on the donation yourself, providing the gift is shown on your Tax Return. If a couple wish to make a donation and one is a higher rate taxpayer, then the higher rate taxpayer should make the payment and get tax relief on the donation.

Savings that save tax!

Have you used up your ISA (Individual Savings Account) limit this tax year? 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 government have proposed to make ISA's a more permanent type of investment, by bringing PEP's within the ISA wrapper, removing the maxi/mini distinction, having an overall annual investment limit of at least £7,000, and allowing all Child Trust funds to be rolled into ISA's on maturity. Investments in ISAs are exempt from Income Tax and Capital Gains Tax.

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 maybe 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 then there may also be scope for investing in it to enjoy the same tax breaks as the EIS investment.

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

Organise your Investments to save Tax

Couples - have you put any 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.

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 2006/07 up to £8,800 in total gains (after reliefs, such as taper relief) can be received tax free.

Losses on shares can still be realised by selling and purchasing them back within an ISA, or by selling shares 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.

Over 65's could consider investments which do not count as their taxable income. If taxable income exceeds the annual limit (£20,100 for 2006/07) then the age related allowance available will reduce. By taking careful action personal tax bills can be reduced, without the need for giving away investments.

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Market your business tax efficiently!

Do you want to market your business without spending too much? Well have you considered using business gifts as a marketing tool?

If not then it may be worth a thought, as with the right gift not only could you promote your business, but you could also save tax. Gifts given to customers could get tax relief if they:

- contain a conspicuous advert for your business, and
- are NOT food, drink, tobacco or tokens or vouchers exchangeable for goods, and
- they do not cost more than £50 per person per annum.

This could be one time that giving could not only result in tax savings but also increased business.

Save tax on rental property

A married couple/registered civil partner may well be able to save tax on jointly held properties they rent out. If the property is held as tenants-in-common then it is possible to notify HM Revenue and Customs the proportion of property they each own (e.g. 20% and 80%) with the lower earning spouse/partner having the bigger share. The rental income will then be taxed between the spouses/partners in the same proportions.

If you are buying residential property to rent out, you may wish to check whether the property is in a designated disadvantaged area. Some of these are in surprising locations. Residential property worth £150,000 or less is exempt from Stamp Duty Land Tax.

If you rent out residential property it may be possible to save tax against the rental income on the cost of loft or cavity wall insulation. The government is proposing to extend the relief, known as "Landlord's Energy Saving Allowance".

If you are looking to invest in residential property, have you considered renting it out as a holiday home? There can be benefits providing certain conditions are met.

- The rental income would be treated as earnings for pension purposes allowing higher pension premiums
- It may be possible to roll over Capital Gains Tax in some situations into the property
- When you come to sell the property the Capital Gains Tax may well be significantly lower than had the property just been rented out as someone's home.

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 2007 to save time this year. Please contact us if you would like assistance.

Buying new plant for your business?

First year capital allowances on plant and machinery for small businesses are 50% until April 2007 when they revert back to 40%. If you are looking to buy new machines or fittings then you may wish to do so before the rate reduces to claim the higher initial relief.

If you are buying new plant, have you considered purchasing more environmentally friendly plant? Not only could you be helping the planet, but 100% of the cost could be allowed, saving the business tax for the period.

Further details can be found on the internet; **www.eca.gov.uk**. Acquire before the business year end and get the relief 12 months early.

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Make the most of pensions

Have you made the most of your pension contribution tax allowances this year? In addition to payments made into pension schemes by individuals (whether they pay tax or not) the Inland Revenue will contribute over 28% of the net payment into the pension policy. Higher rate taxpayers could get at least a further 23% of their net payment in tax relief when calculating their tax bill.

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Taking dividends?

If you own shares in your own company, have you maximised the amount of dividends taken? Providing your own gross income remains below the higher rate tax threshold in a tax year (currently £38,335), there is no personal tax to pay on the dividend. Care is required to ensure the correct documentation is completed and approved prior to the payment.

Company Vans

There is now no tax charge for the business or employee where an employee merely takes a van home with no other private use. 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 £500 (£350 for vans over 4 years old). From 6th April 2007 this will increase to £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 spouses with cars and saving tax.

You may wish to consider providing employees with diesel cars that were registered before 1st January 2006 and meet Euro IV emission standards. Both the business and the employee could pay less in tax and NIC.

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Reward long service tax efficiently

If any of your employees have been with you for more than 20 years, then the business can reward them with a really special long-service present that is completely tax free for both the business and them. Tax-free gifts can now be worth up to £50 for each year of service (up to a maximum of £1,000). The gift must not be cash or vouchers.

Starting a new business

If you start up in business, either as a sole trader or partnership, then the Inland Revenue must be notified within 3 months of commencement to trade if a £100 penalty is to be avoided.

The same applies for companies starting or restarting a trade, although the penalty is initially up to £300, with a potential £60 daily penalty.

Employers pay pension payments

It can often be much more tax efficient for the employer to pay into pensions schemes as "Employer" contributions. This will often result in National Insurance savings for both the employer and employee (which include company directors). A "salary sacrifice" scheme may be set up, where the employee receives less salary and the employer pays into their pension pot.

Care needs to be taken on setting this up. However with potential savings of up to 23.8% of the salary between the employer and employee, it is worth getting it right.

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Tax efficient incentives!

Have you considered allowing key staff to have an interest in your business to retain them? According to Government figures, over 75,000 employees have been able to take advantage of the tax efficient share option arrangement known as Enterprise Management Incentive (EMI). The scheme can be set up relatively cheaply to ensure key personnel are retained and incentivised in a very tax efficient manner.

We can help

Unfortunately the UK tax system is getting increasingly complex… resulting in an increasing number of tax pitfalls for the unwary. The good news though is that there are also many opportunities to pay much, much less tax… and in some cases none at all.

The key message is to seek advice early. Many tax planning opportunities are only available if put in place before undertaking a transaction, such as the purchase of a property.

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."