

Newsletter of 1 March 2009

Budget 2009

The date for this year's budget has been set as 22 April 2009. We will keep you informed of any developments and will provide a summary of key points afterwards.

Business payment support scheme

The government has recently launched a scheme whereby HMRC will agree for tax liabilities to be settled over a period of time rather than on the due date, typically payments can be spread over 3 to 6 months for income tax, corporation tax, VAT and NIC. Providing agreement is obtained in advance of the due date, then all penalties and surcharges for late payment are waived, you only have to pay interest on what is owed. With the interest rate for income tax debts at 3.5%, this is likely to be considerably cheaper than bank finance if available. You can apply direct to HMRC by phone 0845 302 1435 or talk to us first. Further details are available at: <http://www.hmrc.gov.uk/pbr2008/business-payment.htm>

Tips to survive the credit crunch

- Review income and expenses, if you go through all your expenses you will be amazed where the money goes, avoid renewing policies or subscriptions automatically and shop around where practical.
- Spend less than you earn, with the current economic uncertainties now is not the time to be increasing short term debts.
- Consider making a protective claim for tax credits for 2009/10 even if you do not qualify currently. If your income falls during the tax year, a claim can only be backdated up to three months so any claim may be restricted if you qualify for tax credits for the year as a whole and claim after 5 July in a tax year. As a guide if you have children and your household income is less than £58,000 then you may qualify for some tax credits. Details of tax credits and a questionnaire to determine eligibility are available at <http://www.hmrc.gov.uk/taxcredits/introduction.htm>.
- Review mortgage and life assurance to ensure arrangements are competitive and meet current requirements.
- Build up a cash reserve to cover unforeseen events – three months outgoings should be a minimum. How long could you survive if you lost your job?
- Consider filing your tax return early this year if you may be due a refund or wish to reduce payments on account.

Year end tax planning

As the end of the tax year is not far away, now is a good time to review the scope for tax planning. While some ideas may not reduce your tax liabilities immediately, they may reduce future tax liabilities.

For individuals

Income tax:

Consideration should be given to spreading income around the family to make use of allowances and lower rate tax bands. Investments can be held in joint names or transferred to spouses with lower incomes to achieve this.

Borrowings should be reviewed for tax efficiency, mortgage interest on a main residence will not be tax deductible but interest on loans for buy to let properties, purchase of shares in close companies and loans for business purposes may be deductible.

Certain investments can generate tax benefits. The nature and risk attaching to these investments vary considerably, here we review the tax attributes and in no way should this be construed as investment advice. We have links with a number of Independent Financial Advisers who can advise on investments where required.

Individual Savings Accounts (ISAs) – anyone over 18 resident in the UK can invest up to £7,200 in a tax year. No tax is payable on income or capital returns on investments held within an ISA.

Pensions – subject to certain limits pension contributions will attract relief at an individual's marginal rate of tax. Tax relief is available for contributions to the greater of £3,600 gross and 100% of annual earnings (capped at £235,000 in 2008/09). There is a lifetime allowance for the value of an individual's pension funds which is £1.65m in the current year, care should be taken not to breach the limit as significant tax liabilities may arise. The lower limit of £3,600 regardless of earnings, means that contributions can be made by or on behalf of for example non-working spouses or children and grandchildren – as basic rate tax relief is given at source the net contribution required for a gross contribution of £3,600 is £2,880.

Venture Capital Trusts (VCTs) – these are quoted companies that invest in unquoted and AIM listed trading companies. Investment in a tax year is limited to £200,000 subject to certain conditions and holding the shares for at least 5 years the following tax benefits are available:

- Income tax relief of 30% of the amount subscribed;
- Dividends are usually tax free;
- Capital gains are usually not taxable.

Enterprise Investment Scheme (EIS) shares – up to £500,000 can be invested in EIS company shares in a year and qualify for income tax relief at 20% of the amount subscribed provided they are held for at least 3 years and various conditions satisfied. Capital gains can also be deferred with EIS investment and this is referred to below.

Capital gains tax

The CGT annual exemption is £9,600 for the current year. Bed & breakfasting of shares to realise a gain is no longer possible for individuals, however shares can be bought back by a spouse or in to an ISA.

Tax savings may be achieved by transferring assets to spouses prior to sale to utilise their annual exemption and lower rate tax bands, though this may be challenged under anti-avoidance rules if the sale shortly follows the transfer.

If you hold assets that have become of negligible value then a claim can be made to treat the loss as realised to offset it against capital gains.

If you have already utilised your annual exemption and are planning to realise a gain, then consider deferring the sale until after 5 April to defer the CGT payment until 31 January 2011.

Capital gains can be deferred by investment in to EIS companies without limit. The investment must be in the period one year before and three years after the capital gain arises. This means that investment by 5 April 2009 could be used to defer capital gains arising at any time in the last three years i.e. back to 6 April 2006. The deferred gain will become taxable in certain

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circumstances including a sale of the shares although it can be deferred again by a further EIS investment. For individuals with capital gains taxed at 40% in the last three years, there is an opportunity to defer the gains (and if tax has been paid obtain a refund) and then when the gain becomes chargeable on a subsequent disposal of the EIS shares pay a lower rate of tax with the current 18% capital gains tax rate.

The next newsletter will consider inheritance tax issues and business and company tax planning.

Impending deadlines

31 March 2009

Private companies with 31 May 2008 year-ends should file their accounts at Companies House.

Corporate tax returns for periods ended 31 March 2008 should be filed by concession no penalty is charged if the return is submitted by 7 April 2009.

5 April 2009 – End of tax year

For more information or to discuss how the ideas can be applied to your particular situation please contact Simon Bell by phone on 01376 571358 or email simon.bell@sjbtax.co.uk . For copies of previous newsletters or details of our services please visit our website www.sjbtax.co.uk

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