

Newsletter of 12 March 2009

## **Year end tax planning (part 2)**

Following on from last week's newsletter, I will cover a few ideas for inheritance tax (IHT) and business tax that may be appropriate to consider to reduce tax liabilities. While some ideas may not reduce your tax liabilities immediately, they may reduce future tax liabilities.

### **Inheritance tax**

#### *Will planning*

Have you reviewed your Will recently? In addition to potential tax saving opportunities, a Will should ensure that on death your assets pass in accordance with your wishes. Your Will should therefore be reviewed on a regular basis to ensure it reflects your current wishes.

#### *Exemptions*

Do you make full use of the exemptions available?

- annual exemption – up to £3000 in any tax year can be given away, if unused it can be carried forward one year but only if the exemption in the later year is used;
- small gifts up to £250 per individual recipient;
- gifts in consideration of marriage;
- gifts to charities;
- regular gifts out of income may also be exempt subject to conditions.

Spouses have their own exemptions and nil rate band so where appropriate transfers can be made to utilise these. Transfers between spouses should usually be exempt providing they are both UK domiciled.

Assets qualifying for business property relief will be exempt and include unquoted shares in trading companies and interests in a business. Typically individuals may invest in a portfolio of shares quoted on the Alternative Investment Market and Enterprise Investment Scheme (EIS) shares.

#### *Potentially exempt transfers (PET)*

Most lifetime gifts except those to trusts are PETs. No IHT is payable currently on PETs providing you survive seven years after making a gift. If you die within 7 years, the tax liability is reduced the longer you survive over three years.

We also have links with Independent Financial Advisers that we can work with who can advise on strategies to fund inheritance tax liabilities via life insurance products and special forms of trust designed to reduce the value of your estate for IHT purposes whilst still retaining some access to income or capital.

### **For Businesses and companies**

(note: accounting period end rather than the end of the tax year is relevant)

If extracting profits, consider the relative tax efficiencies of the alternatives available e.g. salary, dividends, pension contributions, interest on loans and rent on property used by your company.

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Generally for a company with profits under £300,000 dividends will be cheaper than salary and there is a cash flow advantage with dividends as PAYE is payable immediately while higher rate tax will not be due until 31 January 2010 for 2008/09 dividends.

Review timing of expenditure. Generally businesses will want to accelerate expenditure to obtain relief earlier and defer income though a review on a case by case basis is recommended.

It should be noted that a full year's capital allowance is due regardless of when the expenditure is incurred in the tax year.

The annual investment allowance provides for 100% relief on the first £50,000 of qualifying expenditure in a year and is available for most expenditure on plant and machinery other than cars. Expenditure in excess of £50,000 will qualify for allowances at 20% or 10% depending on the nature of the expense. Businesses may wish to time their capital expenditure to maximise the use of the annual investment allowance in each year.

Changes in the capital allowance treatment of motor cars mean that it may be advantageous for sole traders to purchase an expensive car after 5 April 2009 and for a company to purchase expensive cars prior to 1 April 2009, however whether there is a benefit from deferring / accelerating a purchase will depend on the cost of the car and individual circumstances.

100% first year allowances are also available in respect of energy saving technology and environmentally beneficial plant and machinery, lists of qualifying technology are at [www.eca.gov.uk](http://www.eca.gov.uk) and include items such as boilers, lighting, refrigeration equipment, water flow controllers, water efficient toilets and taps. When incurring expenditure on potentially qualifying equipment, businesses should check whether items qualify. Certain low emission cars also qualify for 100% allowances.

Year-end accruals for employer pension contributions should be avoided as employer contributions are only allowed on a paid basis. Companies should consider paying pension contributions on behalf of directors /employees rather than employees paying personally as contributions are not restricted to earnings and no national insurance arises.

Provisions are tax deductible if they relate to tax deductible expenses and are calculated on a reasonable and accurate basis. General provisions should be avoided as they reduce profits and are not tax deductible.

Does your spouse or other family members provide services to your business? If so, are they paid a justifiable amount to enable unused allowances and lower rate bands to be utilised?

## **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** - Last day of the 2008/09 tax year and deadline for various tax claims and elections including:

- Using the ISA investment allowance for 2008/09.

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- Making disposals to use the 2008/09 CGT exemption.
- Claiming for CGT purposes that an asset became of negligible value or a loan to a trader became irrecoverable in 2006/07.
- Utilising IHT annual exemptions for 2007/08 and 2008/09.
- Making a pension contribution for 2008/09.
- Contracting back into the State Second Pension for 2008/09.

**19 April 2009** - PAYE tax and Class 1 NICs for 2008/09 not paid by today will attract an automatic charge to interest. This includes tax and NICs due under the IR35 rules.

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](mailto:simon.bell@sjbtax.co.uk) . For copies of previous newsletters or details of our services please visit our website [www.sjbtax.co.uk](http://www.sjbtax.co.uk)

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