

Newsletter of 12 February 2007

## Year end tax planning

This newsletter covers various ideas to reduce tax liabilities. 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.

**Individual Savings Accounts (ISAs)** – anyone over 18 resident in the UK can invest up to £7,000 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 to the greater of £3,600 gross and 100% of annual earnings (capped at £215,000 in 2006/07). There is a lifetime allowance for the value of an individual's pension funds which is £1.5m in the current year, care should be taken not to breach the limit as significant tax liabilities may arise.

**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 £400,000 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.

**Film production and other trading partnerships** - these types of investments aim to generate losses in the year of investment to offset other income. Investors will only be required to invest a proportion of the gross investment which is typically recovered by the tax relief on the losses generated, the balance of the investment will be borrowed. The investment is therefore essentially funded by the tax relief generated by the losses with investment returns taxed as income or capital as normal. These partnerships may involve a higher degree of risk and the minimum investment will frequently require at least £100,000 of income to be taxable at 40%.

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## Capital gains tax

The CGT annual exemption is £8,800 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.

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 payable until 31 January 2009.

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. The deferred gain will become taxable in certain circumstances including a sale of the shares although it can be deferred again by a further EIS investment.

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

## Impending deadlines

28 February, 2007

Private companies with 30 April 2006 year-ends should file their accounts at Companies House.

Corporate tax returns for periods ended 28 February 2006 should be filed by concession no penalty is charged if the return is submitted by 7 March 2007.

5% surcharge on any 2005/06 income tax, capital gains tax and class 4 national insurance contributions.

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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This newsletter is written in general terms and therefore cannot be relied on to cover specific situations; applications of the principles set out will depend on the particular circumstances involved and it is recommended that you take professional advice before acting or refraining from acting on any material in the newsletter.

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