

## Newsletter of 20 February 2008

### **Tax return submission, tax payments and forthcoming changes**

Hopefully all readers will have submitted their returns for 2006/07 by 31 January to avoid a late filing penalty. All tax for last year should also have been paid by 31 January 2008, any tax for 2006/07 remaining unpaid after 28 February 2008 will suffer a 5% surcharge so you are advised to ensure any outstanding balances are settled before the end of the month.

For the year to 5 April 2008, the deadline for filing paper returns is being brought forward to 31 October 2008. If you have been used to submitting your return by post in January you will either need to complete the return three months earlier or switch to online filing. The deadline for filing online remains 31 January. We intend to continue to submit all returns online, however we will be aiming to submit the majority of client returns prior to 31 October to avoid last minute problems, to ensure we have time to consider all issues fully and identify planning opportunities.

### **Capital Gains Tax – flat rate tax proposed**

From 6 April 2008, taper relief and indexation will be abolished and instead there will be a flat rate of capital gains tax of 18%. Any assets held since before 31 March 1982 will use the market value at that date as the base cost. This simplifying of the CGT system inevitably means some will gain and others will lose. Owner managers, holders of AIM shares and employee shareholders expecting to get a 10% tax rate will see a significant increase in tax, whilst owners of buy to let properties and private investors may see a fall in tax rates.

Investors should review their assets and where appropriate consider bringing forward sales of assets currently qualifying for full taper and 10% tax or deferring sales if it will result in a lower tax rate after 5 April 2008. It is recommended that calculations under the current and proposed regime are prepared in particular for assets held for a long time where the availability of indexation relief currently may offset the benefit of lower tax rates next tax year.

Investors who have held shares for many years prior to 1998 and accrued significant amounts of indexation relief (for assets held at 31 March 1982 indexation adds over 100% to the base cost) should review their position. Transfers between spouses may be beneficial to help preserve the indexation and we would be pleased to discuss the scope for taking any necessary steps.

As the new rules take effect from 6 April, you should consider reviewing investment assets as soon as possible to ensure there is time to take any necessary action and we would be pleased to review the tax implications of any transactions with you.

### **Husband & wife companies**

After losing a case in the Lord's last year, the government has made it clear that they intend to introduce legislation to counter income splitting between husbands and wives. The new rules are intended to apply when income is distributed as dividends from companies or arises as partnership profits.

It is not clear how the new rules will operate there is a consultation process and we await further details.

It is to be hoped that genuinely commercial arrangements will not be caught by any new rules; however businesses should be prepared to have to adapt existing arrangements and may wish to consider paying dividends prior to the enactment of the new rules.

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Individuals setting up new businesses and those considering incorporation of existing businesses should think carefully as to whether to incorporate. If part of the motivation for incorporation is the potential for tax savings, they may wish to defer incorporation until any changes in the tax regime for companies and owner managed businesses are clearer.

### **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 £7,000 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 £225,000 in 2007/08). There is a lifetime allowance for the value of an individual's pension funds which is £1.6m 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.

## Capital gains tax

The CGT annual exemption is £9,200 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 2010.

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.

## Last year's changes expected to take effect from April 2008

A number of changes were made in the budget earlier in the year which will take effect from the start of the new tax year in April, these include:

- An increase in small companies corporation tax rate to 21% for 2008/09 and to 22% the following year;
- A reduction in the mainstream corporation tax rate to 28%;
- Abolition of the 10% starting rate of tax for employment and pension income and reduction of the basic rate of tax to 20%;
- Significant changes to capital allowances with an allowance of 100% relief for the first £50,000 of capital expenditure balanced by a reduction from 25% to 20% in the writing down allowance for plant and machinery as well as a reduced 10% rate for fixtures in buildings. Businesses planning significant capital expenditure in the next few weeks may wish to review the expected tax treatment for this year and next tax year and consider whether they could benefit from deferring or bringing forward expenditure plans.

## Impending deadlines

### 28 February 2008

5% surcharge on any 2006/07 income tax, capital gains tax and class 4 national insurance contributions.

### 29 February 2008

Private companies with 30 April 2007 year-ends should file their accounts at Companies House.

Corporate tax returns for periods ended 28 February 2007 should be filed by concession no penalty is charged if the return is submitted by 7 March 2008.

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**31 March 2008**

Private companies with 31 May 2007 year-ends should file their accounts at Companies House.

Corporate tax returns for periods ended 31 March 2007 should be filed by concession no penalty is charged if the return is submitted by 7 April 2008.

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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