

Newsletter of 12 March 2007

Year end tax planning (part 2)

Following on from last month'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? For married couples an appropriately drafted Will can save over £110,000 in inheritance taxes. 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;
- 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 capital.

For Businesses and companies

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

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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. Generally for a company with profits under £300,000 dividends will be cheaper than salary.

Review timing of expenditure. Generally businesses will want to accelerate expenditure to obtain relief earlier 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.

First year allowances for small businesses are 50% for expenditure incurred by 31 March for companies (for unincorporated businesses by 5 April) and 40% thereafter, so if significant capex is proposed in the next few weeks try to incur it by these dates to get the higher rate of allowances.

100% first year allowances are available in respect of energy saving technology and environmentally beneficial plant and machinery, lists of qualifying technology are at 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.

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?

The next newsletter will consider any significant issues arising out of the Budget on 21 March.

Impending deadlines

31 March, 2007

Private companies with 31 May 2006 year-ends should file their accounts at Companies House.

Corporate tax returns for periods ended 31 March 2006 should be filed by concession no penalty is charged if the return is submitted by 7 March 2007..

5 April 2006 - Last day of the 2005/06 tax year and deadline for various tax claims and elections including:

- Using the ISA investment allowance for 2006/07.
- Making disposals to use the 2006/07 CGT exemption.
- Claiming for CGT purposes that an asset became of negligible value or a loan to a trader became irrecoverable in 2004/05.

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- Utilising IHT annual exemptions for 2005/06 and 2006/07.
- Making a pension contribution for 2006/07.
- Contracting back into the State Second Pension for 2006/07.

19 April 2007 - PAYE tax and Class 1 NICs for 2006/07 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 . For copies of previous newsletters or details of our services please visit our website www.sjbtax.co.uk

Please feel free to forward this newsletter to any colleagues or friends who may be interested in it or refer them to our website www.sjbtax.co.uk

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