Essential tax planning before 6 April 2011

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The cost of living is going up and with the top rate of tax at 50%, every penny counts. There are plenty of opportunities to save tax and maximise your income, so it pays to plan ahead.

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Tax Efficient Investments

- **Make investments with tax advantages**

There are currently a variety of opportunities for tax efficient investments to suit differing income levels. Two of the main ideas are:

1. Enterprise Zone Syndicates (EZS) - a property syndicate which invests in the development of commercial buildings where 100% capital allowances are available to offset the cost of your investment. A 30% cash investment can provide up to a 50% tax rebate which leads to significant positive cashflow for 40% and 50% taxpayers.

2. Venture Capital Trusts (VCT) - investments which provide the investor with a 30% tax reducer based on the amount invested.

Tax repayments can be accelerated if you are currently due to make payments on account as it may be possible to reduce these payments following an investment. In addition, ISAs remain a simple but effective tax planning measure, enabling individuals to annually place savings into a tax exempt environment. The ISA allowance for the 2010/11 tax year stands at £10,200 so be sure to use yours if you have not already done so.

EXAMPLE: An individual with earnings of £300,000 and investment income of £3,875 can redirect their income tax liability for the year into a combination of EZS, VCT and ISA investments and still have funds left over:

	Cash investment £	Income Tax Saving £
Enterprise Zone Syndicate	78,000	121,958
Venture Capital Trust	25,000	7,500
ISA Investments (husband & wife)	20,400	-
Total	123,400	129,458
Remaining cashflow benefit	**6,058**	

Income Tax

- **Utilise your spouse's lower rate tax band**

It may be possible to shift income between spouses in order to reduce higher rate tax payable, preserve personal allowances and reduce the overall tax burden suffered as a couple. We can review your position to advise on the possible tax savings and implement the planning before the start of the next tax year.

- **Gift Aid contributions**

Whilst tax planning is probably not the main motivation when giving money to charity, it is still important to consider your income levels when making charitable contributions. When determining whether your income levels are in excess of the £100,000 threshold for loss of personal allowance or the £150,000 threshold for top rate tax, income net of gross Gift Aid contributions is used.

Where income levels are low, in some cases this will mean insufficient tax has been paid to cover the Gift Aid element of the contribution. This can lead to an unexpected tax liability for you personally. It is, therefore, wise to review your income tax position when making Gift Aid donations and married couples should consider in whose name the gift is made to ensure the most efficient tax position.

Profit extraction

- **Working from home**

Individuals who perform duties of their employment from home may be able to obtain tax relief for a portion of their household running costs in addition to extracting profits from their company free of employees or employers National Insurance Contributions (NIC). If this is you, talk to us.

- **'Rolling up' company profits for a later extraction as capital**

With the availability of Entrepreneurs Relief reducing the Capital Gains Tax rate for gains made on the sale of a personal company to 10%, you may be considering leaving profits in the company until a future exit. The effective rate of tax in doing so would be 36.78%. However, it is possible through a combination of salary/bonus and investing in tax efficient investments (primarily EZS) to extract company profits this year for an effective tax rate of only 38.83% - the extra 2% may be worth paying to accelerate the cash extraction.

Pensions

- **Fully utilise your annual contribution allowance**

Making pension contributions up to the appropriate annual limit continues to be one of, if not *the*, most tax efficient ways of saving for your future. The rules restricting tax relief on Pension Contributions have been subject to significant changes over the past couple of years making these increasingly complex, with the introduction of significant tax charges for any contributions in excess of the annual limits.

We can review your position to provide the appropriate advice on the maximum contributions you can make free of charge, whilst one of our colleagues within Target Financial Management can provide further advice on pension options.

Capital Gains Tax

- **Recent capital gains**

If you a have made a gain in the previous three years you may want to consider investing in an Enterprise Investment Scheme (EIS) and deferring the chargeable gain until disposal of the EIS investment. A qualifying EIS investment also has the advantage of providing an income tax reducer of up to 20% on your investment and, if held for two years, it is exempt from Inheritance Tax.

- **Likely capital gains in the near future**

For married couples it is important to consider tax efficiency prior to disposing of assets which are likely to give rise to gains or losses. If, for example, you were planning to sell an asset likely to give rise to a large gain, putting this into joint names with your spouse beforehand enables you to utilise both spouse's Annual Exemption of £10,100. This would your reduce Capital Gains Tax bill by up to £2,828.

Further consideration is also needed before disposing of assets where only one spouse has brought forward capital losses, to ensure the losses can be utilised in the most tax efficient way.

Property Planning

- **Reduce tax on rental income**

If you have capital in your rental portfolio and a mortgage on your main residence, it may be possible to claim a deduction for all or part of the interest paid on the mortgage of your main residence, if you have one. This could significantly reduce tax payable on rental profits without increasing your actual overall expenditure.

- **Multiple properties**

If you have a number of properties it is important to consider your Capital Gains Tax position on any future disposals and to take advantage of the main residence exemption – Principle Private Residence relief (PPR). The time limit for making elections is two years from the date you last purchased or sold a property.

Inheritance Tax

- **You're never too young!**

By planning for Inheritance Tax early you allow yourself the best possible opportunity to avoid it all together. If your estate is worth more than the Nil Rate Band (currently £325,000) then any excess is potentially liable to Inheritance Tax at a rate of 40%. However some simple steps can be taken to pass on some of this wealth to your children early. Any individual can gift up to £3,000 each year or make gifts from excess income.

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