

Year end planning opportunities 2010

Act now before 6 April 2010

The end of the tax year has always been seen as a good time to look at your financial affairs. Opportunities need to be taken now or some will be lost forever. Action now may give you cash flow advantages. Announced tax changes mean that this year, more so than in recent years, you may have the opportunity to arrange your affairs to improve your tax position for the next year.

Introduction

Year end planning opportunities exist for many people and basic rate taxpayers can take advantage of many of them. However, this year end there are particular issues for those on higher incomes. This is due to the introduction of a 50% top rate of income tax next tax year for those individuals with taxable incomes in excess of £150,000. Individuals with income between £100,000 and £112,950 will see the gradual withdrawal of personal allowances typically giving rise to an effective rate of tax of 60% between those two figures. Accelerating or redirecting income may be particularly attractive for those expecting to be caught by the rate changes next year.

Let us guide you through the many options which could improve your tax position for the next year. Contact your usual Mazars adviser and ask to discuss your Year End Tax Planning. We hope you find the ideas in this newsletter of use and look forward to hearing from you.

Consider accelerating income

Where it can be arranged that income falls to be taxed prior to 6 April 2010 it should be considered if you expect to be affected by the increase in the rate of tax next tax year. For example, consider the timing of the payment of dividends or bonuses; or the closing of bank accounts to accelerate interest payments. However, bear in mind that doing this will usually also accelerate the tax payment date. Unincorporated businesses and partnerships may find that changing their accounting date to just before 6 April shifts profits from 2010/11 to 2009/10.

Consider the timing of the payment of dividends or bonuses; or the closing of bank accounts to accelerate the tax payment date

Consider ownership of your assets

If you are married or in a civil partnership and only one of you is a higher rate taxpayer, you should consider how your income generating assets are held. Can income tax be reduced by investments being held by the spouse or partner who pays tax at a lower rate or pays no tax at all? If bank interest is received by a non-taxpaying spouse or partner, consider making a declaration to the bank to have the interest paid without deduction of tax.

In the case of a spouse or civil partner, should an election be made to reflect the beneficial ownership of jointly owned

assets to take effect for the next tax year? Without the election income from most jointly owned assets will be split 50:50. However, once you have made such an election bear in mind you can't reverse it later.

You can carry out a similar exercise if in a long term relationship or in connection with your adult children or other members of the family, but remember any transfer of an asset to them may trigger a capital gain unless there is an available exemption, and may also have inheritance tax implications. You should always take advice before you do anything. For example, giving away an interest in your house can also give rise to unwelcome tax implications under the 'pre-owned assets' rules if you continue to occupy it.

Income shifting

Despite earlier indications that the Government would introduce new rules to further attack income shifting arrangements, no action has so far been taken. Income shifting typically involves arrangements in a family company where shares are transferred from the high income spouse to the lower income spouse so that dividends on those shares will be taxed at a lower rate. Companies and partnerships should consider maximising the current opportunities. For existing arrangements this could be via a dividend payment from a company or increasing the partnership profit share of the lower income spouse before 6 April 2010. The new thresholds for the withdrawal of personal allowances and the 50% rate mean that some businesses will find that there are potential savings from income shifting in 2010/11 where previously there was no advantage.

Make or top-up ISA payments

There are annual limits for the amounts that can be invested in tax free ISAs. For this year only it depends on your age. For those adults aged under 50, depending on the nature of the investment you make, this can be up to £7,200 - the limits being the same as for the previous year. However, for those over 50 the overall limit is £10,200 of which £5,100 can be invested in cash.

If not used this allowance will be lost and so consideration should be given to topping up your ISA before the end of the tax year.

Making pension payments

A pension contribution paid before 6 April 2010 can reduce your tax bill for the 2009/10 tax year. It may also reduce your payments on account for the following tax year. It is vital to make such payments by that date if you want relief in 2009/10 as there is no carry back allowed. Most people can make pension contributions of up to £3,600 each year and obtain basic rate tax relief. This is true even if they are not paying any tax. So, for example, consider making payments for your partner or children. Those who have gross income in this or either of the preceding two years of over £130,000 may be caught by the 20% special annual allowance charge in respect of pension contributions over £20,000 and need to consult their pension adviser.

Tax shelters

Income tax relief is available for investments in Enterprise Investment Scheme shares, Venture Capital Trusts and Enterprise Zone Trusts. To obtain relief in the current tax year, the investment must be made by 5 April 2010 in most cases. You can also shelter capital gains by reinvesting the proceeds into Enterprise Investment Scheme shares.

An Enterprise Investment Scheme (EIS) investment can be used to shelter a gain accruing up to 3 years prior to investment. Potentially gains that would have been liable to 40% tax under the regime existing prior to 6 April 2008 can still be sheltered. Subsequently, when those shares are sold the gain revives, but under the current law will only be taxed at 18%.

EIS companies may also qualify for 100% business property relief for inheritance tax after a two year period. This includes those quoted on the Alternative Investment Market.

Visits to the UK

If you do not spend the whole year in the UK you may not be resident here for tax purposes. If you wish to ensure that you are not tax resident for 2010/11, you may need to plan your visits carefully for the year ahead. Reviewing your pattern of visits for the current year may help you plan them for the future.

Broadly, you need to count any day if you stay in the UK overnight, including the day of arrival.

Non-UK domiciled individuals and temporary residents

Significant changes were made from 5 April 2008 to the tax treatment of people who are resident in the UK for tax purposes but are not UK domiciled or are resident in the UK but not ordinarily resident here. Although the rules have been very significantly tightened there remain laxer rules regarding income and gains that arose prior to 6 April 2008. As each year passes it is likely to become more difficult to exploit these rules, so relevant individuals who have such unremitted income or gains ought to take advice as a matter of urgency.

Many individuals within the rules are taxed on their worldwide income and gains, unless they elect to pay under the remittance basis. Adults that have been UK resident for 7 years in the past 9 years will also have to pay an annual charge of £30,000 to make the election. In these circumstances many non-UK domiciled individuals and those who are not ordinarily resident need to reassess their position on an annual basis to decide if action is required.

Those who remain on the remittance basis need to plan their affairs very carefully if they need to remit income or gains to the UK. Advice should always be obtained prior to any remittance.

Gifts to charity

Tax relief can be claimed on charitable gifts made under Gift Aid. There is a facility to carry back Gift Aid payments and making a payment now would ensure that relief is obtained in the current tax year. However, if you expect to be paying tax at the new higher rate it may be efficient to delay the gift until after 5 April 2010 for the additional relief.

It is also possible to claim relief on gifts of quoted company shares and escape capital gains tax on any accrued gains.

Review your payments on account

If you are making payments on account of the 2009/10 tax bill it may be worth checking whether these can be reduced. You should review the income you have received in the current tax year. If you do not expect to be paying tax at the 50% rate and you are able, consider deferring income until the next tax year. But anyone who expects their income to exceed £100,000 in 2010/11 needs to consider the effect on their personal allowance for that year.

For this year only your
ISA limits depend on age

Company car

If you have a company car and are provided with fuel for private mileage by your employer you pay tax this year on a percentage of £16,900 the percentage depending on your car's CO2 emissions. The amount on which the percentage is based increases to £18,000 from 6 April 2010, which is well above the rate of inflation making the fuel charge less attractive.

You should review the private fuel your employer has paid for you and consider reimbursing the cost of this to your employer. This will be worthwhile for you if your tax bill on the taxable fuel benefit would be more than the cost of reimbursement.

Use your annual capital gains tax exemption

Everyone has a capital gains tax free allowance of £10,100 in the current tax year. If you have not realised gains of this amount, you should look at whether assets can be sold prior to 6 April 2010 to take advantage of this tax-free amount. If you are married or in a civil partnership and want to realise a gain on shares to use up the exemption, but want to keep the benefit of those shares in your family, your spouse or civil partner can buy back a similar number of shares to those sold – although a direct sale or gift to your spouse or civil partner will not achieve the desired result.

If you have already used your exemption and need to realise further gains, consider deferring the disposal of assets until 6 April 2010 or later. This will delay the payment of tax by 12 months to 31 January 2012 and allow you to use your annual exemption for 2010/11.

Continued overleaf...

Crystallising capital losses

Again if you already have taxable gains you could consider selling assets which stand at a loss. Such a loss can then reduce the gains on which you pay tax. You should exercise care in this as if your losses reduce your gains below the level of the exemption you will waste part of the exemption.

Also, do not forget that you must lodge a claim for any capital loss incurred. Under transitional rules those made in 2004/05 must be claimed by 31 March 2010 and those made in 2005/06 must be made by 5 April 2010. Thereafter claims must be made within four years of the end of the tax year in which the loss was incurred. Once claimed, such losses can be carried forward indefinitely.

Do not forget that you must lodge a claim for any capital loss

Income tax relief for capital losses

In certain circumstances, capital losses realised on shares in unquoted trading companies can be claimed as an income tax deduction. Such income tax relief must be claimed within one year and ten months of the end of the tax year in which the loss was incurred. Delaying the realisation of those losses until 2010/11 may be advantageous if you expect to be paying a higher rate of income tax compared to now.

Second Home

If you have bought a second home in the last two years, whether in the UK or abroad, have you considered making a principal private residence election? Acting in time can lead to significant tax savings when the property is sold, so it is surprising how often relief is needlessly lost.

Use your annual inheritance tax exemption

Gifts of up to £3,000 during each tax year are exempt from inheritance tax, regardless of to whom they are made. Although not a substantial amount in itself, using this exemption each year will add up over time. There are other exemptions you should consider using if circumstances permit.

Lifetime giving

It remains the case that you can make lifetime gifts to other individuals without limit and no inheritance tax is payable provided you live for 7 years from the date of the gift. If you gift a chargeable asset you need to consider the capital gains tax position.

Review regular gifts out of income

An inheritance tax exemption is also available for gifts which are made regularly out of your income. If you have made such gifts in the past, it is important that you maintain the regular pattern. You should check whether you have made all the necessary gifts in the current tax year. You should also contemplate whether to start making such gifts.

Please get in touch . . .

For further information please get in touch with your usual Mazars contact or ask to speak with a tax adviser at any of our locations across the UK.

Bedford	Tel: 01234 402 000	Glasgow	Tel: 0141 226 4924	Milton Keynes	Tel: 01908 664 466
Birmingham	Tel: 0121 236 7711	Leeds	Tel: 0113 204 9797	Nottingham	Tel: 0115 943 5363
Brighton	Tel: 01273 206 788	Liverpool	Tel: 0151 236 6262	Oxford	Tel: 01865 722 744
Bristol	Tel: 0117 973 4481	London	Tel: 020 7063 4000	Poole	Tel: 01202 680 777
Dudley	Tel: 01384 230 432	Luton	Tel: 01582 700 700	Southampton	Tel: 023 8023 2428
Edinburgh	Tel: 0131 313 7900	Manchester	Tel: 0161 831 1100	Sutton	Tel: 020 8661 1826

Alternatively you can contact the appropriate tax advisor by email tax@mazars.co.uk. or the appropriate financial planning and investment services planner by email info.mfp@mazars.co.uk

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