

2012/13 Year End Strategies



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In these days of economic uncertainty we all need to make the most of every pound we earn.

With personal tax rates of sometimes in excess of 60% and inheritance tax at 40% on death, it would be unwise to ignore the opportunities offered by proper professional tax and financial planning.

We can advise on strategies to minimise taxes and maximise the strength of your business and long-term financial health by, for example:

- making the most of tax breaks for you and your business
- planning to extract profits from your business tax-efficiently
- making the most of tax-advantaged savings (including pensions)
- reducing the inheritance tax due on your estate.

We can also help you to review your business cash flow to identify weaknesses and key points, such as tax payment dates and difficulties arising from extended settlement terms.

Tax planning is something of a minefield, with changes which take effect part-way through your business year or even during the tax year, the overlap of 'old' and 'new' rules on matters from pension saving to capital allowances, and changes which are announced now but do not take effect until one, two, or sometimes even three years later. We can lead you through that minefield.

Note: this guide refers to 'spouses'; in most cases this applies also to civil partners.

Getting the timing right

Timing is crucial if you want to maximise tax relief or minimise the tax bill on a transaction or investment. It can also determine when any reliefs impact on your tax payments or your tax code.

Sending us your accounting and personal records in good time means we can discuss planning opportunities and help you manage cash flow by giving you early warning of any tax payments due. Discussing your thoughts on your business and finances with your accountant, pensions adviser, colleagues and family ahead of taking action, and setting time aside to step back from the routine of your personal and business life to look at what you want to achieve and how you might best achieve it, will always be time well spent.

We can help with all aspects of your tax and financial planning needs. Talk to us now for advice on making the most of the opportunities available to you and your business this year.



60% is still the hidden top tax rate

While it was headline news back in March 2012 that the 'top rate' of income tax will be reduced from 50% to 45% from 6 April 2013, the fact remains that for some taxpayers the current top rate actually exceeds 60%.

This effective rate of 60% applies to those with a taxable income for 2012/13 of between £100,001 and £116,210, who lose £1 of personal allowance for every £2 by which their adjusted net income exceeds £100,000 – giving an effective 60% tax rate on up to £16,210 of their income, which is well below the £150,000 threshold at which the official top rate begins to bite!

If you find yourself in this position, you should talk to us, as there are two key routes to avoid this 60% tax charge: reducing income or increasing allowances. We can discuss your options, which may include delaying dividends to the next tax year or increasing your pension premiums or Gift Aid contributions, in order to take your 2012/13 income out of the 'invisible' 60% tax band.

Taking advantage of capital allowances

Depreciation is not tax-deductible. Instead, capital allowances allow the costs of capital assets to be written off against taxable profits. The Government sets the rates, often with the stated goal of encouraging greener investment and helping smaller businesses.

An Annual Investment Allowance (AIA) – in effect, a year-one write off – is allowed for most businesses on up to £25,000 of expenditure on most types of plant and machinery (but not cars, to which different rules apply). This new, lower ceiling was introduced at the start of the year, but for many small businesses considering substantial amounts of qualifying expenditure it may in any event be worth considering spreading the cost over two years to maximise the value of tax relief.

‘Greener’ investment is encouraged through specific 100% allowances available for some investments, including energy-saving equipment and low-emissions cars. Otherwise the general rate of annual writing down allowance is 18% on the reducing balance, with an 8% allowance for certain categories, including cars with CO₂ emissions exceeding 160 g/km, long life assets and certain specified integral features of buildings.

Typically, a purchase made just before the end of the current accounting year will mean the allowances will usually be available a year earlier than if the purchase was made just after the year end. In the same way, the disposal of an asset may trigger an earlier claim for relief or even an additional charge to tax.

Please contact us for more information on the allowances that may be available to you, and advice on how you may be able to maximise tax relief and optimise the timing for your business.



Lifetime planning for big inheritance tax savings

The inheritance tax (IHT) threshold remains frozen at £325,000 until 2015, which means that even with ongoing uncertainty over house values, many people will continue to find that the value of their home takes their estate into the 40% IHT bracket.

IHT is currently payable at 40% on total assets exceeding £325,000, and in some cases the value of assets given away up to seven years before your death can be brought back into account, so if you own your own home and have some savings and other assets such as shares and securities, your estate could be liable. Early planning is therefore essential in order to minimise your liability to IHT. Here we outline some key IHT planning strategies.

Reliefs can reduce the IHT value of gifts

There are a number of IHT reliefs available, perhaps most importantly relief on business and agricultural property, which effectively takes most of such property outside the IHT net. As always, there are detailed conditions, including a two-year minimum holding period, but business and agricultural property will generally attract 100% or 50% relief.

We can claim exemption for some transfers

Transfers of assets between two spouses or civil partners are generally exempt from IHT, regardless of whether they are made during a person's lifetime or on their death. In addition, the nil-rate band may be transferable between spouses and civil partners. This means that if the bulk of one spouse's estate passes on their death to the survivor, the proportion of the nil-rate band unused on the first death goes to increase the total nil-rate band on the second death.

Other exempt transfers include:

- small gifts (not exceeding £250 per tax year, per person) to any number of individuals
- annual transfers not exceeding £3,000 (any unused amount may be carried forward to enhance the following year's exemption)
- certain gifts in consideration of marriage or civil partnership

- normal expenditure out of income
- gifts to charities.

Using lifetime gifts to reduce the IHT bill

Introducing a programme of lifetime gifts can also significantly reduce the IHT liability on your estate. This has the advantage of allowing you to witness the benefits they

bring to your family members, while also escaping IHT as long as you survive the gift by seven years and no longer continue to benefit from the gift yourself.

A discount can also apply where lifetime gifts were made between three and seven years before death (note that the

discount applies not to the gift but to the tax on the gift so, as above, these 'old' gifts can significantly increase the final bill unless we have been able to cover them with an exemption or relief).

Trusts can make a difference

Trusts can be used to help maintain a degree of control over the assets being gifted, for example in the case of younger recipients. Life assurance policies can be written into trust in order that the proceeds will not form part of the estate on your death. Talk to us about using trusts to suit your planning needs.

An up-to-date Will is essential

Your Will is your ultimate opportunity to get money matters right. You should review your Will at regular intervals to ensure that it reflects changes in your family and finances, is tax-efficient, and includes any specific legacies you would like to give, including tax-free donations to charity.

Through lifetime IHT and estate planning you can reduce the liability to IHT, protect family wealth and ensure that you leave clear and complete instructions as to how your estate is to be distributed on your death. Contact us to find out more.

“With care, lifetime gifts can reduce the final tax bill”

Self Assessment - keeping records

It is essential that you keep adequate records as we need to be able to support every figure on your Tax Return. Please contact us for help and advice.

Will you make the most of your ISA allowance?

Ideal for saving small, regular amounts, Individual Savings Accounts (ISAs) are available from banks, building societies and a variety of other providers and, despite continuing low interest rates, are still a popular tax-free saving option. For all adult savers the maximum investment in 2012/13 is £11,280. You have until 5 April 2013 to make your 2012/13 ISA investment.

ISA investment limits	Overall	Cash
Adults	£11,280	£5,640
Age 16 - 17		£5,640

In addition, Junior ISAs, for those aged under 18 who do not have a Child Trust Fund account, allow investment of up to £3,600 in 2012/13. Withdrawals are not permitted until the child reaches the age of 18, at which point the Junior ISA will become a normal adult ISA.

Planning for your retirement

Recent statistics show that people are increasingly working well past the age of 65. While some of these men and women are undoubtedly in good health and in a job or business they enjoy, for most people retirement cannot come soon enough! Whatever your own feelings, no-one can deny the importance of making current savings work towards a more comfortable retirement.

In recent years, many people have looked to parallel investments for retirement, for example gold, second homes and buy-to-let. Yet more invest in a pension scheme, whether a company or a personal scheme, allowing them to enjoy tax breaks on their pension savings. They enjoy tax reliefs of up to 60% as they invest and a tax-free regime for their savings. Their employer may also be able to contribute and obtain tax relief.

Scheme managers can provide pension forecasts to help you judge whether you are saving enough, and what additional savings you might have to make in order to generate the income you will need in retirement.

For pension contributions to be applied against 2012/13 income they must be paid by 5 April 2013. Tax relief is available on annual contributions limited to the greater of £3,600 (gross) or the amount of the UK relevant earnings, but subject also to the annual allowance.

The basic annual allowance is a straight £50,000 cap on pension savings. However, it is possible to adjust your annual allowance to reflect savings shortfalls in the last three tax years, against a notional cap of £50,000. This is in part to reflect the impact on higher earners of the cap introduced between 2009 and 2011, and in part to reflect the simple fact that for many self-employed people earnings and available cash vary from one year to another. For example:

Tax year	Gross pension saving	Notional cap	Carry forward to 2012/13
2009/10	20,000	50,000	30,000
2010/11	30,000	50,000	20,000
2011/12	10,000	50,000	40,000

With the £50,000 cap for 2012/13, this client can make contributions up to £140,000 gross, tax-efficiently.

The rules are complicated but we can calculate your personal pension savings cap, as well as advising on many other aspects of financial planning, including a discussion of your spending needs, post-retirement.



Is there a tax-efficient alternative to company cars?

Substantial tax costs aside, the company car remains an important part of the remuneration package for many employees – and an essential business tool for many employers.

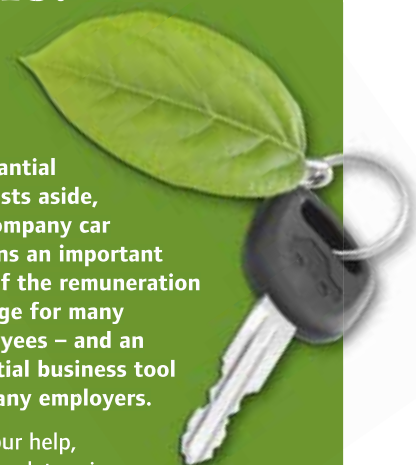
With our help, you can determine whether the company car is still a tax-efficient option, whether a qualifying 'van' might be an alternative, and ultimately decide on what is the best course of action for you and your business.

Tax and national insurance costs could mean that your company car may not be the most tax-efficient option for either employer or employee. The car benefit and car fuel benefit (where fuel for private use is provided with the car), on which you pay income tax at up to 50% (or even 60%) and your employer pays 13.8% Class 1A national insurance contributions (NICs), are calculated at up to 35% of the list price (car) and a notional £20,200 (fuel).

For some, an employer provided 'van' may be a viable alternative to a company car: the tax charge is £1,200 plus up to £220 for fuel for those paying tax at 40% (earning approximately £42,500 to £150,000 in 2012/13).

The company car or van benefit is currently subject to a Class 1A NIC charge of 13.8%, payable by the employer.

It may also be worth reviewing the company car policy completely, as it could prove more beneficial to pay employees for business mileage in their own vehicles, at the statutory mileage rates, with a rule of thumb being that this option is more likely to pay off when business mileage is high.



It's your company – how to keep more of the profit

While there are numerous ways of extracting profit from your company, each has its own implications for the amount of tax you pay, and for the company itself. See below for some key planning strategies.

Corporation tax is the tax due on a company's profits, while personal income tax generally applies to what is drawn out of the company by means of a salary, bonus or other forms of remuneration.

Dividend versus salary/bonus

The question of whether it is better to take a salary/bonus or a dividend requires careful consideration. A dividend is paid free of NICs, whilst a salary or bonuses can carry up to 25.8% in combined employer and employee contributions. However, a salary or bonus is generally tax deductible to the company, whereas dividends are not, so the choice is not always straightforward. 5 April 2013 is the last date for paying a 2012/13 dividend, and any higher or additional rate tax on that dividend will not be due until 31 January 2014.

Defer income

The top dividend tax rate is now 42.5%, so thought needs to be given as to the timing of dividends if taxable income is likely to exceed £150,000, especially if income in 2013/14 will be less. The top dividend rate for 2013/14 will be 37.5% – perhaps enough reason to delay a dividend to after 5 April 2013? A bonus deferred until 2013/14 will also benefit from the reduction in the top rate of income tax from 50% to 45%.

More ways to extract profit

You may also want to consider alternative means of extracting profit, which might include the following:

Capitalisation

For those expecting to liquidate their companies in the next few years, profits might be left in the company to be drawn as capital.

Current rules allow retained profits distributed on liquidation to be subject to capital gains tax, with a potential tax rate as low as

10% if Entrepreneurs' Relief is available. However, caution is advised as high cash reserves held without a clear business purpose or substantial investments can jeopardise Entrepreneurs' Relief or IHT Business Property Relief.

Incorporation

As the above points may suggest, incorporation may give more scope for saving or deferring tax than operating as a self-employed person or partner.

Of course, incorporation may not suit all circumstances, and the 'IR35' rules specifically counter the use of 'personal service companies' to reduce tax, but we will be pleased to discuss how incorporation might apply to you and your business.

Tax-free allowances

Tax-free allowances, such as mileage payments, apply when you drive your own car or van on business journeys. The statutory rates are 45p a mile for the first 10,000 miles and 25p a mile above this. If you use your motorbike the rate is 24p a mile, and you can even claim 20p a mile for using your bicycle!

Childcare

Parents of young children may be entitled to tax and NIC-free childcare vouchers, including the provision of vouchers of up to £55 a week, provided by their employer. Where both parents are employees, of the same or different employers, the exemption is effectively doubled. The costs are usually deductible to the employer.

Maximum vouchers per parent: For people who joined the scheme before 6 April 2011, the limit is £55 per week. For those joining now, or who joined on or after 6 April 2011, the limit is:

- if your top tax rate is 20% – £55 per week
- if your top tax rate is 40% – £28 per week
- if your top tax rate is 50% – £22 per week

By using the available allowances and exemptions your family could maximise tax-free income and gains – please contact us for advice.

Pensions

Employer pension contributions can be a tax-efficient means of extracting profit from a company, as long as the overall remuneration package remains commercially justifiable. The costs are usually deductible to the employer and free of tax and NICs for the employee.

Property

Where property which is owned by you is used by the company for business purposes, such as an office building or car park, you are entitled to receive rent, which can be anything up to the market value, if you wish. The rent is usually deductible to the employer. You must declare this on your Tax Return and pay income tax, but a range of costs connected with the property can be offset. On the other hand, receiving rent may mean a bigger CGT bill if/when you come to sell the property, so care needs to be taken to weigh up the pros and cons.

Talk to us about the best ways to extract profits from your business tax-efficiently.

We are here to help...

Make good use of us! This guide is designed to help you identify areas that might have a significant impact on your tax planning. Please consult us early for help in taking advantage of tax-saving opportunities. We will be delighted to assist you.

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My Year End Checklist!

- Make the most of my 2012/13 ISA allowance
- Talk to my accountant about ways to extract profits from my business at the smallest tax cost
- Find out how the timing of dividends and bonuses could reduce or defer tax
- Review my pension arrangements
- Claim capital allowances for expenditure on business equipment
- Find out the impact of accelerating disposals into the current financial year or deferring them into the next
- Plan to minimise the tax take, including VAT and capital gains tax
- Review my estate plan and my Will
- Put in place a tax-efficient gifting strategy
- Consider ways of improving cash collection
- Make sure I am offering tax-efficient staff remuneration packages
- Send my business and personal records to my accountant in good time
- Contact my accountant regarding these and any other issues relating to my business, tax and personal financial situation.