TAX E-NEWS

Monthly Update – Jan 2013

Happy New Year and welcome to our monthly tax newsletter designed to keep you informed of the latest tax issues.

We hope you enjoy reading the newsletter; remember, we are here to help you so please contact us if you need further information on any of the topics covered.

Best wishes

Liz Elliott
Tax specialist

ODD HAPPENINGS WITH THE PERSONAL ALLOWANCE

- 2012/13 - £8,105
- 2013/14 - £9,440 (not £9,205 as originally planned)

To make sure that 40% taxpayers do not fully benefit from the charge to the Promised Land of a £10,000 personal allowance, the level of taxable income at which that rate starts is being restricted to £32,010 of taxable income in 2013/14, increasing by 1% per annum in 2014/15 and 2015/16.

There is a tax trap by reference to the gradual withdrawal of the personal allowance if your taxable income exceeds £100,000. This is via a reduction of £1 of allowance for every £2 of excess taxable income. For 2012/13, the trap exists if you have taxable income between £100,000 and £116,210. This makes you a 40% taxpayer, but on income within that band you effectively pay tax at 60%.

This is unacceptable; in fact, the trap widens in 2013/14 where it applies to taxable income between £100,000 and £118,880. If this trap is likely to affect you, we are able to advise on several possible ways of avoiding it.

ANNUAL CGT EXEMPTION

This is currently £10,600 and we are told it will increase to the following:

- £11,000 in 2014/15, worth £3,080 at the normal 28% rate of CGT
- £11,100 in 2015/16, worth £3,108 at the normal 28% rate of CGT

It is unclear what the exemption will be for 2013/14, but an annual tax saving of around £3,000 is always worth planning for where possible.

IHT NIL-RATE BAND

When the Conservatives were in opposition, they talked about a nil-rate band of £1 million. That seems to have fallen by the wayside, due to the tax which would be lost. This is all you can expect to have exempt from inheritance tax on your death before the flat 40% rate comes into play:

- 2012/13 = £325,000
- 2013/14 = £325,000
- 2014/15 = £325,000
- 2015/16 = £329,000

This means even more careful planning is needed if you want to maximise how much passes to your beneficiaries.

CORPORATE TAX RATES

The rate of corporation tax for a small company with profits up to £300,000 remains at 20%. Other companies pay corporation tax at a rate of 24%, reducing to 23% in the year to 31 March 2014. We are now told the rate reduces further to 21% for the year to 31 March 2015, when we will have just about the lowest rate in the EU. This is good news; no doubt, the main aims are to increase investment in the UK and encourage large corporates to have their headquarters here.

TAX E-NEWS

Monthly Update

McEwanWallace
Chartered Accountants
Business Advisers

ANNUAL INVESTMENT ALLOWANCE OF 100% ON PLANT & MACHINERY

This is a major development for all businesses, who will be able to claim 100% tax relief on expenditure of up to £250,000 in each of 2013 and 2014. That is instead of the current level of £25,000 – an increase of 10 fold to try and increase investment. It is reckoned that 99% of all businesses do not spend more than £250,000 each year. Careful planning on the timing of your capital expenditure needs is essential to take advantage of this tax break.

CORPORATION TAX RELIEF FOR THE CREATIVE SECTOR

Enhanced corporation tax reliefs from 1 April 2013 have been confirmed, with the effective rate of relief being more generous than first thought. Targeted at animation, high-end TV and video game manufacturers, the aim is to make the UK the leading technology centre for Europe. The tax reliefs involve an additional CT deduction of 100% of relevant expenditure, or a payable credit of 25% of qualifying losses given up instead. If you are within the creative sector, we can make sure you get the best tax deal.

NEW EMPLOYEE SHARE OWNERSHIP SCHEME

This is likely to be introduced from 1 April 2013 and is aimed at SMEs. The scheme plans to offer employees between £2,000 and £50,000 of shares, with any gains being exempt from CGT. However, employees must give up some of their UK employment rights in return. It is certainly a novel idea, and whilst care is needed from a whole host of perspectives, it could well be attractive to many people and businesses. The CGT exemption is of course top of the list of attractions, particularly if the company is sold in the future. There is an up-front income tax and NIC charge, however, on the value of the shares given, but the latest news on this is that it may not apply to the first £2,000 worth of shares.

PENSIONS TAX RELIEF

The attractions of pension scheme enhancement are clear, especially if the employer meets some or even all of the contributions, but there are issues as follows:

- Little chance of a final salary scheme being available
- Poor investment performance
- High charges reducing the fund value over a number of years
- Ever lower annuity rates

The Autumn Statement has mixed messages on the tax structure. The bad news is that the annual maximum you can contribute is going down from £50,000 to £40,000, although this will not be until 2014/15. The lifetime allowance is a maximum value of your pension plan, which if exceeded creates a nasty tax charge of 55%. This allowance reduces to £1.25 million from the current £1.5 million, again as from 2014/15.

DRAWDOWN PENSION

Where the purchase of an annuity is not attractive, given the rate applying at the particular age, the option is to take a drawdown until you are of an age when the annuity rate is more palatable. The maximum income that you can withdraw from a drawdown pension fund was capped at 100% of the equivalent single-life annuity from 6 April 2011. That will revert to the previous limit of 120%. This is certainly good news and increases flexibility. A 65 year old male, for example, might expect an annual annuity of only 5%. A drawdown arrangement will under the new rule allow 6% (120% of 5%) to be taken from the pension fund.

For more information contact The Tax Team:

T: 0151 647 6681
E: enquiries@mcwallace.co.uk