

# SNAPSHOTS

tax planning supplement with this issue

**Spring 2008**



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## Income splitting: Be prepared before 6 April 2008

Chancellor Darling introduced the concept of Income Shifting in his Pre Budget Report and the consultation document was issued on 6 December 2007. In essence these rules will be used to prevent an individual transferring part of their income (as dividends or partnership profits) to another person who is subject to a lower rate of tax. This might be by issuing shares in a company to be held between a husband and wife (or by civil partners) or creating a partnership out of a sole trader. Such an arrangement will be deemed to be tax geared and attacked because of a tax advantage to the couple over the working party being taxed on the whole sum. The following conditions need to apply to satisfy the rules:

1. Individual 1 is a party to or has power over the relevant arrangements;
2. Individual 1 forgoes income, and the income foregone is individual 2's for the relevant tax year;
3. Individual 1 has the power to control the amount of income that is shifted; and
4. The shifted income consists of dividends of a company or profits of a partnership.

In order to understand these conditions some examples might prove beneficial. If A is a sole trader and has sales of £100,000 and costs of £30,000 he will be taxed on a profit of £70,000. If A introduces a spouse to make a partnership or incorporates a company and gifts half the shares both parties would earn £35,000 and not pay higher rates of tax. Therefore A "has power over the relevant arrangements".

If A and B are shareholders (A holding 80% of the shares and B 20%) and A decides to waive a right to certain dividends so that B receives more monies then condition 2 is satisfied.

If A holds shares in, say, Shell and gifts half the holding to B, A has not got the power to control the amount of any dividend income received from the company. If, however A holds shares in his own company of which he is a director then he would, having made the transfer, the power to control the amount of any dividend. This satisfies 3 above.

In any of the above situations A and B will have to decide upon whose self assessment form the income is reported. In all of the above H

M Revenue & Customs (HMRC) would suggest it to be A's. There will be exemptions. If both parties are higher rate rules will allow that element of income which is higher rate not to be shifted to the other tax return. There will also be an opportunity not to shift all of the income if some duties are provided by party B. In this situation HMRC will ask whether the work done by B reasonably justifies the level of reward received after considering the type of work undertaken, the amount of work done and the extent of their responsibility for making key decisions in running the business.

On top of any salary paid, any capital introduced, any assets used to support borrowing at a lower secured rate rather than a higher unsecured rate will be taken into account. Therefore more sophisticated businesses employing both parties have a better chance of avoiding these rules. Unfortunately most "box room" businesses will have difficulty unless both parties are required to invest the majority of their time running it which was the stance taken by HMRC in Arctic Systems – which they ultimately lost. So how will these provisions affect our clients?



**Paul Short** considers the Agriculture Sector, "There seems a risk that farming partnerships, where husband and wife are joint partners, could be affected by the proposed legislation. Logic suggests that HMRC will restrict their interest to blatant cases of income shifting and will not disturb long standing arrangements. Farm businesses, however, should not take chances. Profit sharing arrangements should be reviewed. As these rules will be introduced at a time of increasing farm profits more tax could be at stake.



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**Nick Forsyth** considers a trading company with premises where both parties work in the business albeit one on a part time basis. "To avoid an income shifting argument it will be important for salaries to be paid that accurately records the hours and skills utilised by each party. Reference to employment agencies might be necessary. After this the remaining profit can be split between the parties equally. Splitting the share capital in a different way may achieve a similar result but without salary payments may weaken the position and lead to questions from HMRC".



#### John Smith-Daye

considers Partnerships. "HMRC know all the profit splitting arrangements from tax returns submitted but will not know the duties of each partner. We can expect a standard letter to be sent out asking for this information in due course. If the partners have other income from different employment sources then you may need to take advice from us regarding your future position".

This is clearly a difficult area that needs your urgent consideration if you feel you may be affected. Please contact your local Lambert Chapman Partner who will be happy to provide you with appropriate advice.

## Nick Forsyth examines the Chancellor's Capital Gains Tax climbdown



Nick Forsyth

After all the speculation Chancellor Alistair Darling has made his statement to the House of Commons

on the changes he proposed in his Pre-Budget Report on capital gains tax. If you recall he originally proposed the abolition of taper relief and indexation on gains made and proposed replacing them with a flat capital gains tax rate of 18%.

So what did the Chancellor do – and more importantly is it any good to us?

The announcement introduces a new entrepreneur's relief, with an effective tax rate of 10% on entrepreneur's gain and a new £1 million lifetime allowance for gains made by entrepreneurs. For the majority of our clients this is a welcome announcement returning them back to the tax rate they understood to be the case and for our larger clients, whilst a little disappointing, there is still the benefit of the first £1 million of gain being taxed at 10% saving them £80,000.

As usual there are qualification issues. The entrepreneur's relief will

apply to gains arising on disposals of trading businesses and to gains arising on certain disposals of shares in trading companies. We believe that the definition of a "trading company" will mirror what currently qualifies as a trading company under the taper relief rules. As an example a haulage, printing or estate agents business would qualify whereas a property or investment company would not.

The material stake rules return, requiring a person to hold 5% of the shares in the company and also be able to exercise 5% of the voting rights in that company to qualify.

The lifetime rule is new and welcome. Whilst it may require more information on a tax payer's capital gains history from 6 April 2008 we understand it to be as follows:

Roy starts a business and runs it for 8 years. He is made an offer for the business and decides to accept it at a gain of £200,000. This is taxed using the effective entrepreneur's relief rate of 10%.

He then invests £180,000 into a new venture which runs extremely well enabling him to sell it after 5 years for a gain of £450,000. Roy's gains now stand at

£650,000 (£200K+£450K) so using entrepreneur's relief he is taxed at 10%.

Once more he invests into another business which is sold 10 years later for a gain of £800,000. Roy's gains now stand at £1,450,000 (£650K +£800K) so he is able to use up his balance of entrepreneur's relief of £350,000 (£1M - £650K) at 10% before paying 18% on the remaining £450,000 (£800K - £350K).

Roy sets up a fourth business understanding that any gain on its sale will be taxed at 18% having previously used up his lifetime entrepreneur's relief on the previous three businesses.

Whilst we also say "the devil is in the detail" it would appear that Mr Darling's climb down is favourable for small businesses and we therefore welcome it. However, we should not forget that this announcement follows on from an awful Pre-budget Statement which will still put some smaller tax payers at a disadvantage. As more detail emerges we will bring it to you. In the meantime if you need advice or would like to discuss any of the above please call Nick Forsyth on 01376 326266.



## Chris Harman looks at the new VAT rules on Invoicing

On 1st October 2007 a new law was introduced by HM Revenue & Customs in connection with VAT

Invoicing. HM Revenue & Customs have announced that, whilst penalties will be issued to taxpayers for non-compliance, they will only issue penalties in exceptional cases of non-compliance during the period from 1st October 2007 to 30th September 2008. The period of 'leniency' must not be taken as a reason for not complying so we recommend that you implement the new rules now.

So what are the new rules and who do they affect?

### A) Every VAT Registered business.

Currently, the requirement is for a VAT Invoice to have an identifying number. The new rule which will affect every VAT Registered business is that all invoices issued must be under a unique and sequential

numbering system. It does not matter from which number your first invoice is issued i.e. you may wish to commence trading using invoice number 12345; this is allowed as long as the invoices then run sequentially from that point. If you wish to have identifying codes for your clients / customers, or, you wish to reflect your trading year / calendar year then the identifying code can be a prefix or suffix to the sequential numbering system which is applied to your whole client / customer base.

### B) Specialist Sectors.

In addition to a sequential numbering system, some specialist sectors will also need to adhere to further new rules. The invoices must include one of three references:

1. A reference to the relevant article in the EC Directive.

2. A reference to the relevant UK legislation.

3. A reference specific to the specialist sector for which the invoice is raised. The specialist sectors are:

- Second Hand Schemes.
- Tour Operators Margin Scheme.
- Cross border EC Exempt Supplies.
- Cross border EC reverse Charge Supplies.

Whether you fall in A) or B) a review of the details shown on your stationery and invoices is recommended. Contact your professional adviser, especially if you fall into one of the specialist sectors, to make sure you are fully compliant with all aspects of the VAT recordkeeping for your business sector. Please contact us if you need further help.

# Planning for the new capital allowance regime

## Significant changes are to be introduced on 1 April 2008 on the purchase of plant and machinery

These changes were announced in the Budget in March 2007 but with very little detail. A second consultation paper was published in December setting out the proposals. Currently small and medium sized businesses receive a first year allowance (FYA) in the year of purchase followed by a writing down allowance (WDA) of 25% in subsequent years. Under the new rules FYA's are to be withdrawn and replaced by a new Annual Investment Allowance (AIA) and WDA's are to be reduced from 25% to 20%.

The AIA gives immediate tax relief for the cost of qualifying plant and machinery within an annual limit of £50,000 for businesses of all sizes. This is good news for the smaller business who will now find the majority of their capital expenditure relieved in full in the year of acquisition. If capital expenditure on these assets is in excess of £50,000 the business will receive additional relief in that year at the WDA rate of 20%. Whilst this is of interest to larger businesses the equalisation figure between the two systems is only £133,338 which will be easily passed by those needing to replace multiple assets to keep a fleet of plant, vans or lorries up to current specification.

The Chancellor wished to reflect the economic depreciation of assets that are commonly regarded as integral to a building. The Integral Features legislation introduces a separate classification at a rate of 10% for items such as electrical systems (including lighting systems), cold water systems, space or water heating systems, powered systems of ventilation, air cooling or air purification (and any floor or ceiling comprised in such systems) lifts, escalators and moving walkways, external solar shading and active facades. Not a long list but one which opens an additional allowance for expenditure undertaken on buildings.

As we might expect energy saving and environmentally beneficial policies warrant mention. In order to encourage such policies companies will be able to surrender trading losses attributable to enhanced capital allowances in return for a tax credit of 19%.

### So should we rush into acquiring plant and machinery before April 2008?

Clearly this decision rests on the size of your business and the level of capital expenditure proposed. If you expect to spend on all assets in an accounting period more than £133,338 then it may be better to bring that expenditure forward. If it is



less than waiting a few weeks will see you benefit in the initial period of purchase, albeit that you will have to wait 12 months in tax terms to do so. You also need to consider your year end as in the first period of the new rules a pro rata of the AIA will be in place. For example a December 2008 year end will only get £37,500 and £50,000 for each year thereafter.

Traditionally tax planning has always focused on reducing a liability for the current period rather than a future one. Despite obtaining more allowable expenditure by waiting you will undoubtedly pay a larger tax bill in the current year. How will this affect your cash flow? The sums should be calculated before making a decision. You must also consider the financing of the assets. If an asset is financed it has to be brought into use by the business by the year end for tax relief to be secured. As a result an invoice dated before 31 March will not in itself secure you a last FYA of 50%. Technical advice should be sought before making your final decision and your local Lambert Chapman contact will be happy to advise you on this area.



## Sponsorship or just paying for a hobby?

A tax case has ruled in favour of a coach hire business claiming advertising expenditure and capital allowances on expenses incurred whilst sponsoring the business owner as he took part in motor rallying events.

The facts of the case were that Mr McQueen had held a long term interest in motor sport and had also enjoyed a degree of success during that time. Mr McQueen was a successful driver and saw no need to sponsor an independent driver. He believed that, by sponsoring his car in rally events, this would help to aid the advancement of the business, securing new clients and revenues by increasing public awareness.

HMRC tried to contend that the costs were not incurred wholly and exclusively for the trade and therefore should not be deductible against the taxable business profits. However the decision went in favour of Mr McQueen on the basis that the personal satisfaction he had obtained was incidental to the benefits obtained by the business. Consequently, all the costs were allowable.

Some of the key facts of the case were:

- the use of the business livery and lettering on the rally cars
- the wide scale sponsorship of events
- events were used to entertain customers
- the publicity, both newspaper and television
- the cars were displayed daily outside the business premises.

Although the case demonstrates the deductibility of sponsorship expenditure for this particular business, it does not mean that any business can necessarily claim similar costs. This would depend on the facts of each case. To be successful in obtaining a tax deduction a supportable business case needs to be made. A business would need appropriate evidence to demonstrate that the expenditure is being incurred for business purposes and not just paying the costs of a personal hobby.



## Michael passes exams

We were delighted to hear that Michael Anthony had passed the last of his ICAEW exams in the November 2007 sitting. Michael has passed all of his examinations at the first attempt and now only needs to submit his case study to qualify. He joined us in 2005 to undertake a four year training contract having graduated from Warwick University with an Honours degree in Mathematics. He is based in our Chelmsford office in the accounts and audit team and is pictured with Chelmsford partner Beverley Hill. Away from the office Michael plays football for a local side in Canvey Island and supports West Ham United.

## Snapshots Christmas Hamper presented

As we anticipated there was a lot of humming going on in Essex and its surrounding counties before Christmas as Snapshot recipients worked their way through the Carol Competition for the Fortnum and Mason hamper. 46 entries were received of which 31 were correct. The winner was Chris Hennessy at **Danbury Fencing Limited** who is pictured with director Derek Codling receiving the hamper from Nick Forsyth.



All the answers are published on our website in a December Firm News article entitled "Snapshots Christmas Hamper presented".

## Lambert Chapman LLP to be a sponsor at Halstead & Essex Marathon

On Sunday 11th May 2008 the 14th running takes place of the Halstead & Essex Marathon which is the only marathon run in Essex and is now ranked within the top ten races in the UK by Runner's World. The race is organised by Halstead Road Runners and brings both tourism and trade to the Halstead area plus a charity contribution, which last year raised £1,800 to the Essex County Hospital Cancer Unit.



This year's beneficiaries will be The Essex Air Ambulance, The League of Friends of Halstead Hospital and Halstead Day Centre. This sponsorship continues Lambert Chapman's commitment to support local community events both in terms of sponsorship and entry. If you would like more information on the event please visit the marathon website [www.HalsteadAndEssexMarathon.co.uk](http://www.HalsteadAndEssexMarathon.co.uk)

## Outsourcing your Payroll? Is now the time to consider it?

With the days counting down to preparing and reconciling another Form P35 is now the time to think about outsourcing the function for the 2008/09 tax year starting on 6 April? We understand from previous anecdotal evidence that the payroll function is often seen as time consuming and burdensome which can distract the business owners from focusing their energy and resources on the important task of running their business.

Our dedicated payroll bureau has operated for over 10 years and currently manages the payrolls for 220 businesses of varying sizes and is responsible for the calculation of wages for over 2,500 employees. Despite these numbers they still have capacity for more clients and 6 April is the best date to take on new work.

Our in-house team (pictured), under the control of Lisa Potter, comprises of Jayne Djidjelli, who is

manager of the department, Jacqui Bird and Carrol Powell all experienced payroll processors who are continually improving their knowledge in current processing techniques and PAYE legislation. They use the 'Star Professional' software which streamlines the process and by using advanced reporting options allows us to provide clients with specific reports to manage their business. For a growing number of clients we are also responsible for organising the net payments of wages to employees through their bank. These payments are reviewed by a Partner before the figures are sent to the Bank.

Clients find our service efficient and cost effective and use our review process to ensure that quality is maintained. We provide a named payroll processor to each client to build knowledge and support of the



business so you will feel that person to be part of your team and help you to keep the continuity you knew previously.

On the reverse of the quiz sheet is a payroll quote form that will enable you to obtain a no obligation quotation from us to determine whether you think the service may be value for money or not. Please fill in the requested employee information and fax it back to us on 01376 552221. Alternatively you may use the web form on the payroll page on our website at [www.lambert-chapman.co.uk](http://www.lambert-chapman.co.uk).

# Year end tax planning supplement



**Tax is a subject that excites very few people. It is easy to ignore awkward issues involving tax, such as those mentioned in this newsletter. Don't - it could cost you dear. Instead, think of a regular review of your tax affairs (at least once a year) as an opportunity to reduce the taxman's take from your family.**

**The period leading up to the end of the tax year on 5 April is one of the best times to review your taxes and finances.**

**In this newsletter we summarise the more important year end tax tips to help you identify areas that should be considered. As always we would be delighted to discuss with you the issues involved and any appropriate action you may need to take.**

## Income tax saving ideas for all the family

### Married couples

Consider the split of income between husband and wife. A transfer of assets (which must be outright and unconditional) may serve to redistribute income and reduce or eliminate higher rate tax liabilities. For example it may be possible to save nearly £9,000 a year by moving £40,000 of savings income from an income-rich spouse to one with no income. This level of tax saving is unlikely to be possible for many but significant savings can be made by much smaller transfers of income. Moving just £1,000 of savings income from a higher rate taxpaying spouse to one with income below the personal allowance (£5,225) may save £400 a year.

The tax treatment of married couples applies to same-sex couples who have entered into a civil partnership under the Civil Partnership Act. References to husband and wife should therefore be read to include civil partners throughout this supplement.

Income arising from assets owned jointly but in unequal shares is automatically taxed in equal shares unless a declaration is made to HMRC stating that the asset is owned in unequal shares. This election can be made on a Form 17 but must be made before the income arises. Consider such a declaration when a new jointly owned asset is acquired. The

exception to the equal splitting rule is dividend income from jointly owned shares in 'close' companies which is split according to the actual ownership of the shares. Close companies are broadly those owned by the directors or five or fewer people.

payment of the wages must actually be made to the spouse. The National Minimum Wage rules may also impact.

Care must be taken as HMRC are about to legislate against 'income shifting'. The legislation is designed to stop a tax advantage being obtained by diverting income under non-commercial arrangements.

The new rules will apply from 6 April 2008.

### Children

Parents must remember that their children are also potentially within the tax system. It may be possible to utilise the children's personal allowances and starting/basic rate tax bands. However if income arising to a child but deriving from a parent exceeds £100 gross a year it will be taxed on the parent while the child is unmarried and under 18. This rule applies to income arising from outright gifts made by parents as well as to income from trusts set up by parents.

National Savings Children's Bonus Bonds (for children under 16) are a means by which parents can provide capital for their children and which earn tax-free interest.

Income tax savings may be made if you are self-employed. Your spouse could be taken into partnership or employed by the business. This could be just as relevant for a property investment business producing rental income as for a trade or profession.

A spouse could be employed by the family company. However the level of remuneration must be justifiable and



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For children born since September 2002 a Child Trust Fund (CTF) has been introduced. The idea is to encourage tax efficient savings by family and friends and, with the government's help, to build a nest egg which the child can access once he or she reaches age 18. The government's initial contribution amounts to £250 (£500 for low income families) with further payments promised once the child reaches age seven. Other contributions of up to £1,200 per annum can be added to the fund and although there is no tax relief on making the contributions the fund is tax exempt.

Income to use the child's personal allowance could be provided by:

- income derived from capital provided by relatives other than parents (grandparents, uncles, aunts etc)
- distributions from family trusts (set up by relatives other than parents)
- employing teenage children in the family business - remember there is now a National Minimum Wage of £3.40 per hour for 16 and 17 year olds.

Dividend income is not an effective way to utilise the personal allowance - the tax credits are not repayable. Ensure other sources of income are available to use the allowance.

### And for those over 65

Taxpayers aged 65 and over are able to claim higher personal allowances. The benefit of these allowances is eroded where income exceeds £20,900. In such circumstances a move to capital growth or tax-free investments may preserve the higher personal allowances.

## Deadlines looming for employers



Ignore them at your peril! Remember that in most instances interest will be charged on tax paid late and penalties can be levied if forms are late or incorrect.

**19 April 2008** - Interest will run on any 2007/08 PAYE and NIC deductions not paid over by this date (22nd for electronic payments).

**19 May 2008** - Employers' year end returns (P35 and P14) due for submission.

**31 May 2008** - Employees must be provided with their P60 (certificate of pay and tax deducted).

**6 July 2008** - Submission of P11Ds and P9Ds returning details of expenses paid and benefits provided to employees and directors. A copy of the P11D/P9D must also be given to each employee.

A dispensation, allowing certain items to be omitted from the forms, can be granted by HMRC.

**19 July 2008** - Class 1A NIC for 2007/08 on most benefits in kind provided to employees must be paid. Interest runs from this date on late payments.

**19 October 2008** - PAYE settlement agreement liabilities for 2007/08 due, together with Class 1B NIC (22nd for electronic payments).



## Electronic filing and payment

All employers with at least 50 employees must file their end of year returns electronically. Employers with fewer than 50 employees do not have to start online filing until 2009/10 but there are tax-free incentives for early take up. Large employers (those with at least 250 employees) must also pay their PAYE electronically.

Contact us if you would like help with your payroll procedures.

## National insurance issues

### Entitlement to a state pension

Where a spouse is employed by the family business, the earnings are often kept below the national insurance threshold to avoid payment of contributions.

For 2007/08 it is worth paying earnings of between £87 (the lower earnings limit) and £100 (the earnings threshold) per week. There will be no employers' or employees' contributions due on the earnings but entitlement to a state retirement pension and certain other benefits is preserved. Note that the limits will be £90 and £105 per week in 2008/09. A PAYE scheme would be needed to establish the employee's entitlement to benefits.

### Small earnings exemption

For the self-employed there is a requirement to pay a flat rate contribution (Class 2). If your profits are low you can apply for exemption. The limit for 2007/08 is £4,635. If contributions have been paid for 2007/08 and it subsequently turns out that earnings are below £4,635 a claim for repayment of contributions can be made. The deadline for this claim is 31 December 2008. On the other hand it may be advisable to pay the contributions in any event in order to maintain a contributions record as they are only £2.20 a week. The alternative voluntary Class 3 contributions are £5.60 a week higher.

## Employers' action points

Contact us if:

- you have any concerns over the accuracy or completeness of your PAYE records
- electronic filing of year end returns
- you need assistance with the completion of P11Ds or application for a dispensation.

Have you thought about:

- a PAYE settlement agreement as a useful way to account for tax on minor benefits provided to employees
- obtaining a dispensation.

# Capital gains tax - could you benefit from planning ahead?

Each individual has an annual exemption of £9,200 for Capital Gains Tax (CGT) purposes. Review your chargeable assets and consider selling before 6 April 2008 to utilise the exemption. Note that husband and wife both have their own annual exemption. A transfer of assets between them may mean they can both make gains of £9,200 tax-free. Bed and breakfasting (sale and re-purchase overnight) of shares is no longer tax-effective. However sale by one spouse and repurchase by the other, or sale outside an ISA and repurchase inside, can achieve the same effect. This can be done either to utilise the annual exemption or to establish a capital loss to set against gains.

Children also have their own annual exemption and this may be utilised by investing for capital growth.

Traded or 'second hand' endowment policies (SHEPs) can also produce gains to utilise the annual exemption. An unwanted policy is acquired and paid to maturity. On maturity, the proceeds payable less the acquisition cost and premiums paid creates a capital gain.

Careful planning could lead to £9,200 of gain per family member being realised every year tax-free.

The government has announced that the system of CGT will be radically changed from 6 April 2008.

The changes include

- the abolition of CGT taper relief and indexation
- the introduction of a flat rate of CGT of 18%, and
- proposals to introduce an entrepreneurs' relief giving an effective 10% tax rate on the first £1 million of qualifying gains.

Capital gains can be deferred by investing via the Enterprise Investment Scheme (EIS).

If you have two homes you may be able to make elections to maximise the 'main residence' exemption. Talk to us if you use more than one property as a residence.

Remember that capital losses can be established by making a claim where assets no longer have any value - a 'negligible value' claim.



## Family companies - maximising the potential, minimising the extraction costs

A director/shareholder of a family company can extract profits from the company in a number of ways. The two most common are by way of bonus or dividend. For every £1,500 net paid to the higher rate taxpaying individual, the cost to the company is £2,000 if a

dividend is paid and £2,294 if a bonus is paid. This assumes the company is liable to corporation tax on its profits at the small companies rate of 20%. There are many issues to consider in making the decision but paying a dividend can often result in significant tax savings.

If the payment of bonuses to directors or dividends to shareholders is contemplated, careful thought must be given as to whether payment should be made before or after the end of the tax year. This will affect the payment date for any tax and may affect the rate

at which it is payable. Remember that any bonuses must be paid within nine months of the company's year end to ensure tax relief for the company in that period.

## Charity watch - making the most of giving

To encourage charitable donations, the government has created a number of ways of securing tax relief on charitable donations.

**Example 1** - Alex makes a one-off donation under Gift Aid. The scheme potentially applies to any charitable donation large or small, whether regular or one-off. The charity is able to claim basic rate tax (currently at 22%) back from HMRC. As a higher rate taxpayer Alex will also qualify for 40% tax relief on the gift. Tax relief against 2007/08 income is possible for charitable donations made between 6 April 2008 and 31 January 2009 providing the payment is made before filing the 2007/2008 tax return.

**Example 2** - Ben agrees to a regular deduction from his salary under the Payroll Giving scheme. There is no upper

limit on the amount that can be donated in this way. His tax bill is reduced as his PAYE liability is calculated after deducting the charitable donation.

**Example 3** - Camilla decides to leave a substantial bequest to charity in her Will. This saves inheritance tax at 40%.

**Example 4** - David gives some quoted shares to a charity, on which there is a substantial unrealised capital gain. However no CGT arises on a gift to a charity. The charity can then sell the shares free of CGT providing it applies the proceeds for charitable purposes. Furthermore income tax relief is available to David on the value of the shares gifted, so there is a double-deal of tax relief. The same rules apply to gifts of land and buildings.

## Benefits for employees

Much of the planning for employment income (including directors' remuneration) focuses on the provision of tax efficient benefits. However most taxable benefits in kind give rise to employers' (but not employees') national insurance.

Note that the tax paid by employees and directors, and the national insurance employers pay on fuel provided for private travel, increases by more than 17% with effect from 6 April 2008. To discuss remuneration packages and the provision of benefits further, please contact us.



# Pensions - plan ahead - don't take a chance on your future!

There are many opportunities for pension planning but the rules can be complicated. Furthermore the rules on the taxation of pensions changed very significantly in April 2006. The rules include a single lifetime limit (£1.6 million in 2007/08) on the amount of pension saving that can benefit from tax relief. This lifetime limit is measured when pension benefits are taken. There is also an annual limit on the maximum level of pension contributions (£225,000 for 2007/08, £235,000 for next year).

Pensions have received a particularly bad press in recent times for a variety of reasons. However the tax relief on pension contributions, still at 40% for a

higher rate taxpayer, is attractive. Pension planning therefore forms an important part of a year end tax planning review.

The self-employed or those in non-pensionable employment obtain tax relief for payments under personal pension contracts. Individuals can obtain tax relief on contributions up to £3,600 (gross) per year with no link to earnings. This makes it possible for non-earning spouses and children to make contributions to pension schemes. Further contributions can be made up to 100% of earnings, generally referred to as net relevant earnings.

Different rules apply to those paying old style 'retirement annuity premiums' under policies that started before 1 August 1988.

Family company directors should consider making additional employer contributions to existing company pension schemes. If a spouse is employed by the company, consider including them in the company pension scheme or setting up such a scheme for the purpose. Even where salary levels are modest, such a scheme can provide significant benefits, but as a result HMRC are keeping an eye out for unusual or 'excessive' contributions.

## Using tax efficient investments

**Some investments benefit from a favourable tax status. We consider the main ones below. Any investment decision should involve consideration of all the relevant factors, including the risk level and the need for income and capital in both the short and long term, as well as the tax advantages.**

### Individual Savings Accounts

Individual Savings Accounts (ISAs) provide an income tax and capital gains tax free form of investment. The maximum investment limits are set for tax years. Therefore to take advantage of the limits available for 2007/08 the investment(s) must be made by 5 April 2008. You can invest either in a maxi ISA or mini ISAs. The maxi ISA route gives you the option to invest up to £7,000 (per tax year) either fully in stocks and shares or up to £3,000 in cash with the balance in stocks and shares. Under the mini ISA route, up to £4,000 can be invested in stocks and

shares and up to £3,000 in cash. 16 and 17 year olds are able to open (mini) cash ISAs.

### Other investments

There is a wide range of **National Savings products**, eg NSB savings accounts, savings certificates and bonds. These are taxed in a variety of ways. Some, such as National Savings Certificates, are tax-free.

For those whose income may fall in the future, for example due to retirement, investments deferring income to a subsequent period may be attractive. For example **single premium life**

**assurance bonds** and **'roll-up' funds** can achieve this effect.

### The Enterprise Investment Scheme

(EIS) allows new equity investment of up to £400,000 in any tax year in qualifying unquoted trading companies (including AIM). Income tax relief at 20% is available on the investment and capital gains tax exemption is given for shares held for at least three years.

Furthermore unlimited capital gains realised on the sale of any chargeable asset (including quoted shares, holiday homes etc) may be deferred by reinvestment in EIS shares. An added benefit is that after two years of

ownership EIS shares will qualify for business property relief for inheritance tax purposes.

A **Venture Capital Trust (VCT)** invests in the shares of unquoted trading companies. An investor in the shares of a VCT will be exempt from tax on dividends (although the tax credits are not repayable) and on any capital gains arising from disposal of the shares. Income tax relief, currently at 30%, is available on subscriptions for VCT shares, up to £200,000 per tax year, if the shares are held for at least five years.

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