

Newsletter March 2007

We have shared a few ideas with you this month regarding last minute tax planning prior to the tax year end 5 April 2007. We have also included year end tax planning considerations regarding pension contributions. Finally we have published the changes to the rates per mile HMRC will accept if you need to calculate the fuel element of your company car usage.

Budget day has been confirmed as the 21 March 2007. Our next newsletter will be published on Wednesday 4 April 2007.

Tax Planning prior to 5 April 2007 - Family matters

Spreading assets and income around the family can reduce the overall tax bill. Please note that care should always be taken in adopting any tax strategy that involves other family members - advice should always be taken prior to any action being taken. Possible short-term advantages and any long-term disadvantages should be considered together.

Some simple ways to achieve this are set out below:

Transfer of Income Producing Assets

If one spouse or partner is a basic rate taxpayer while the other is a higher rate taxpayer, it may make good sense to ensure that income-producing assets are in the name of the person paying tax at lower rates.

Investing for Capital Growth rather than income.

If parents gift capital to their children under 18 and as a result the child receives income of more than £100 a year by investing the gifted capital, the parents are taxed on that income until the child either becomes 18 or marries before reaching that age. (Income from child trust funds (CTFs) and National Savings Childrens Bonus Bonds are not treated in this way.) A possible way to avoid this income tax charge on the parents is to ensure that the capital is invested in funds that generate capital growth rather than income - though note that gains may be assessed on the parent, subject to the usual annual exemption if available. When transferring assets to children, the capital gains tax (CGT) and inheritance tax (IHT) implications must also be considered. Importantly, the ownership of an asset must genuinely be transferred for a gift to be tax-effective.

ISA investments for 16/17 year olds.

To encourage younger savers, 16 and 17 year olds can invest up to £3,000 in a cash deposit within an ISA. However, if parents give their children funds to invest in the ISA, and the investment income arising on all gifts from parents to any child exceeds £100 in the year, the parents will again be taxed as if the income belonged to them. Grandparents or other relatives and friends may be able to provide cash for such an ISA investment and

thus the income can then be received tax-free. However since the 6 April 2006 the Revenue are attempting to tax the benefit of such gifts and until the dust settles the outcome of gifts from grandparents and others is less certain.

Child Trust Funds (CTF's).

Child trust funds (CTFs) - Income and gains within a CTF are exempt from income tax and CGT. Parents and others (including the child) can contribute up to £1,200 in total each tax year. Now would be a good time to think about topping up a CTF to use this year's allowance. CTFs are intended to provide an accumulation of money and assets for children when they reach age 18, perhaps providing a lump sum towards further education. All UK-resident children born after 31 August 2002 are eligible for this fund. The Government makes an initial £250 contribution (more to those on low income) to a CTF following a claim to child benefit and a further contribution when the child reaches age seven.

Tax Planning prior to 5 April 2007 - Capital gains and inheritance tax

Inheritance Tax

Nil rate band trusts - A simple review of a Will can be a good place to start. As property may well be the main asset, you may need to think about whether you are properly using your Nil Rate Band for IHT (currently £285,000). Wills can be arranged which ensure that couples can effectively plan so that on the death of, say, the first spouse their Nil Rate Band is fully used up.

Annual Gifts - There is the annual IHT exemption of £3,000 to consider. This is often unused and becomes £6,000 if last year's allowance remains available. Separate gifts of up to £250 can be made to any number of individuals in a tax year and there are a variety of gifts which can start the 7 year 'clock' running for "potentially exempt transfers".

Capital Gains Tax

Annual Exemption - fully utilise the annual exemption for 2006/07 of £8,800.

Bed & Breakfast - It is not possible to 'bed and breakfast' investments (sell and buy back the same shares to release gains or losses) unless the repurchase is over 30 days later. However, there are alternatives such as 'bed and spousing' (selling your shares and your spouse buying them on the open market) and 'bed and ISAing' (selling shares and your ISA buying shares).

Other inter-spouse transfers - If your spouse has unused capital losses or annual exemption, you could consider transferring (unconditionally) shares with in-built gains to him or her prior to a disposal. The losses and exemptions can then be set against the gains made - the computation of gains and application of losses can be a complex process and advice should always be taken before considering this strategy.

Deferring disposals - Sometimes it is worth deferring disposals until after 5 April to obtain more taper relief and to defer tax payments by one year. Be aware that the Chancellor could raise the tax rate in a different tax year although there are no rumours that anything like this is planned at the moment.

Negligible value claims - It is worth reviewing investments to see if any have become of negligible value. If appropriate the capital loss can be claimed to reduce current year gains.

Tax Planning prior to 5 April 2007 - Pension Contributions

Under the new pension tax rules which applied from April 2006, the number of tax planning opportunities available to self-employed contributors are now somewhat limited. In particular:

Carry back - There is no longer any carry back facility, so that contributions paid by members only qualify for tax relief in the year in which they are paid.

Limit on contributions - members of pension funds can contribute up to 100% of their relevant UK earnings, subject to an over-riding limit of £215,000 for 2006-2007.

No carry forward - The right to carry forward unused relief from year to year was abolished some time ago.

Tax relief on contributions made - Where an individual makes pension contributions in a tax year and although having sufficient income to cover the contributions made, has paid no tax in the year, the tax relief deducted from the pension contributions is not recoverable by HMRC.

Age limit - Once a contributor to a pension fund reaches age 75 years there is no further tax relief available on contributions made.

Recycling - Where a member of a pension fund makes a contribution and at the same time, or within a short period, draws down a tax free lump sum from the pension, he may fall foul of the "recycling" provisions, under which the lump sum effectively funds all or part of the pension contribution. Where the lump sum does not exceed £15,000 the recycling provisions do not apply, so this rule only applies to those making substantial contributions. If the recycling provisions do apply, the lump sum becomes taxable, defeating the attempt to maximise tax relief in this way. It is worth noting that for members aged 50 and over, up to 25% of the fund may be drawn tax free at any time, and if done in part to fund contributions at a modest level can increase the tax relief obtained to 50% for a higher rate taxpayer.

HMRC announce reduced fuel rates

Reduced fuel mileage rates will now apply from the 1 February 2007. The circumstances in which the rates will be used are:

If employers:

Reimburse employees for business travel in their company cars. (This would be the case where employees pay for all fuel and then claim for the fuel cost of the business related mileage from their employers), or

Require employees to repay the cost of fuel used for private travel. (This would be the case where employers pay for all fuel and require employees to repay the fuel cost of private mileage).

The following rates per mile should now be used to calculate the petrol/fuel cost of business or private motoring.

Engine capacity up to 1400cc - Petrol 9p, Diesel 9p, LPG 6p.

Engine capacity 1401 to 2000cc - Petrol 11p, Diesel 9p, LPG 7p.

Engine capacity 2001 and over - Petrol 16p, Diesel 12p, LPG 10p.

Tax Diary March/April 2007

1 March 2007 - Due date for corporation tax for the year ending 31 May 2006.

19 March 2007 - PAYE and NIC deductions due for month ending 5 March 2007. (If you pay your tax electronically the due date is 22 March 2007)

31 March 2007 - To qualify for the 50% first year allowance, for purchase of plant and machinery by small companies, expenditure must be made by today. The qualifying date for non-incorporated businesses is 5 April 2007.

1 April 2007 - Due date for corporation tax for the year ending 30 June 2006.

19 April 2007 - PAYE and NIC deductions due for month ending 5 April 2007. (If you pay your tax electronically the due date is 22 April 2007)

DISCLAIMER - PLEASE NOTE: The ideas shared with you in this email are intended to inform rather than advise. Taxpayers circumstances do vary and if you feel that tax strategies we have outlined may be beneficial it is important that you contact us before implementation. If you do or do not take action as a result of reading this newsletter, before receiving our written endorsement, we will accept no responsibility for any financial loss incurred.