BARTHOLOMEW HAWKINS LTD

FINANCIAL GUIDE

A GUIDE TO 2012/13 YEAR END TAX PLANNING

Don't gamble with your money, start planning now

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A guide to 2012/13 Year End Tax Planning

Don't gamble with your money, start planning now

With the end of the tax year rapidly approaching on 5 April, now is the time to focus on ways to mitigate any tax liability. To make the most of the opportunities available, if you've not already done so, you should start putting plans in place now. Here we look at some of the areas you may need to consider to minimise a potential tax liability.

Married couples and registered civil partners

If your partner pays a lower rate of tax than you, you could consider transferring assets into their name. This makes particular sense if one of you is a non-taxpayer, as your taxable income will be lower than your tax allowances, which means you won't have to pay any tax on savings interest. Interest on savings accounts is usually paid after 20 per cent has been deducted by the provider. Higher rate tax payers pay 40 per cent interest.

To receive your interest paid tax free, you will need to complete form R85. This is available from banks, building societies or the HM Revenue and Customs (HMRC) website. If you are a non-taxpayer, but have paid tax on your savings, make sure you claim it back. You need form R40 from HMRC.

Income from jointly owned assets is generally shared equally for tax purposes. This applies even where the asset is owned in unequal shares unless an election is made to split the income in proportion to the ownership of the asset. The exception 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.

Children

Children have their own allowances and tax bands. Therefore it may be possible for tax savings to be achieved by the transfer of income-producing assets to a child. Generally this is ineffective if the source of the asset is a parent and the child is under 18. In this case the income remains taxable on the parent unless the income arising amounts to no more than £100 gross per annum.

You could consider transferring assets from other relatives, for example, grandparents and/or employing teenage children in the family business to use personal allowances and the basic rate tax band.

Children also have their own Capital Gains Tax (CGT) annual exemption of £10,600 (2012/13). If appropriate, it may be more effective for parents to invest for capital growth rather than income.

The government introduced the Child Trust Fund (CTF) for children born on or after 1 September 2002. The idea was to promote tax-efficient savings by family and friends and included government contributions as an incentive. All government contributions have now ceased and children born on or after 3 January 2011 no longer qualify for a CTF account.

Existing CTF accounts continue alongside a new Junior Individual Savings Account (Junior ISA) which has been introduced for those children who are not eligible for a CTF account. This includes children born before 1 September 2002 as well as children born from 3 January 2011. Both CTF and Junior ISA accounts allow parents, other family members or friends to invest up to £3,600 (2012/13) annually in a tax-efficient fund for a child. There are no government contributions and no access to the funds until the child reaches 18.

Taxpayers

The 50 per cent additional rate of income tax on taxable incomes above £150,000 reduces to 45 per cent on 6 April this year. This means that those who are able to defer income from 2012/13 to 2013/14 could benefit from a 5 per cent or more reduction in the tax charged on the amount deferred.

Non-taxpayers

Children or any other person whose personal allowances exceed their income are not liable to tax. Where income has suffered a tax deduction at source a repayment claim should be made. In the case of bank or building society interest, a declaration can be made by non-taxpayers to enable interest to be paid gross (form R85).

Tax credits on dividends are not repayable so non-taxpayers should ensure that they have other sources of income to utilise their personal allowances.

Pension contributions

There are many opportunities for pension planning but the rules can be complicated.

The rules include a single lifetime limit, currently £1.5m in 2012/13 but reducing to £1.25m in 2014/15, on the amount of pension saving that can benefit from tax relief. There is also an annual limit on the maximum level of pension contributions, currently £50,000 for 2012/13 reducing to £40,000 in 2014/15. The annual limit includes employer pension contributions as well as contributions by the individual. Any contributions in excess of the annual limit are taxable on the individual.

This year and next tax year, carry-forward provision allows investors to contribute up to a maximum of £200,000. You can carry forward any unused annual allowance from the previous three years, which will give people some scope to catch up on contributions they have missed. You could potentially invest up to £200,000 (assuming a £50,000 allowance from the current year and an assumed £50,000 allowance from the previous three). If these are personal contributions they cannot exceed your earnings in the current tax year.

Directors of family companies could, as an alternative, consider the advantages of setting up a company pension scheme or arrange for the company to make employer pension contributions. If a spouse is employed by the company, consider including them in the scheme or arranging for the company to make reasonable contributions on their behalf.

Employer-provided cars and fuel

If applicable, you should also check that an employer-provided car is still a worthwhile benefit. It may be better to receive a tax-free mileage allowance of 45p per mile (up to 10,000 miles) for business travel in your own vehicle.

If an employer-provided car is still preferred, consider the acquisition of a lower CO_2 emission vehicle on replacement to minimise the tax cost.

Where private fuel is provided, the benefit charge is also based on CO_2 emissions. You should review any such arrangements to ensure no unnecessary tax charges arise.

If you want to invest in both a Cash ISA and a Stocks & Shares ISA, the overall amount is capped and you cannot exceed the £11,280 limit (2012/13).

16 to 17-year-olds are able to open an adult Cash ISA in 2012/13 and can also have a new Junior ISA account. This means that a combined maximum investment of £9,240 (£5,640 Cash ISA + £3,600 Junior ISA) is possible for 2012/13.

Capital Gains Tax (CGT)

With 5 April fast approaching, it is a good idea to be thinking about using up your CGT exempt amount to make the best use of tax advantages. For 2012/13 every individual has a CGT exempt amount of £10,600 where no CGT is payable. Any capital gains on disposal of assets or investments are added to income and taxed at 18 per cent over this exempt amount to the basic rate limit of £34,370 for 2012/13 and then at 28 per cent for any gains over this.

Depending on your income from capital gains, timing can become an important issue. If appropriate, you should aim to use up your personal exemption before 5 April but if your income from capital gains is high enough then you could wait until the 2013/14 tax year to possibly avoid paying tax at 28 per cent unnecessarily.

CGT liabilities are calculated with your Self-Assessment Tax Return and tax payable is due by 31 January 2013 for the tax year ending 5 April 2012. Therefore part of your planning may be to leave disposals until after the year end to give you another 12 months to pay the tax liability.

If you have two homes you could consider making an election, so that future gains on your 'main residence' are exempt from CGT.

A capital gain can also be deferred if the gain is reinvested in the shares of a qualifying unquoted trading company through the Enterprise Investment Scheme.

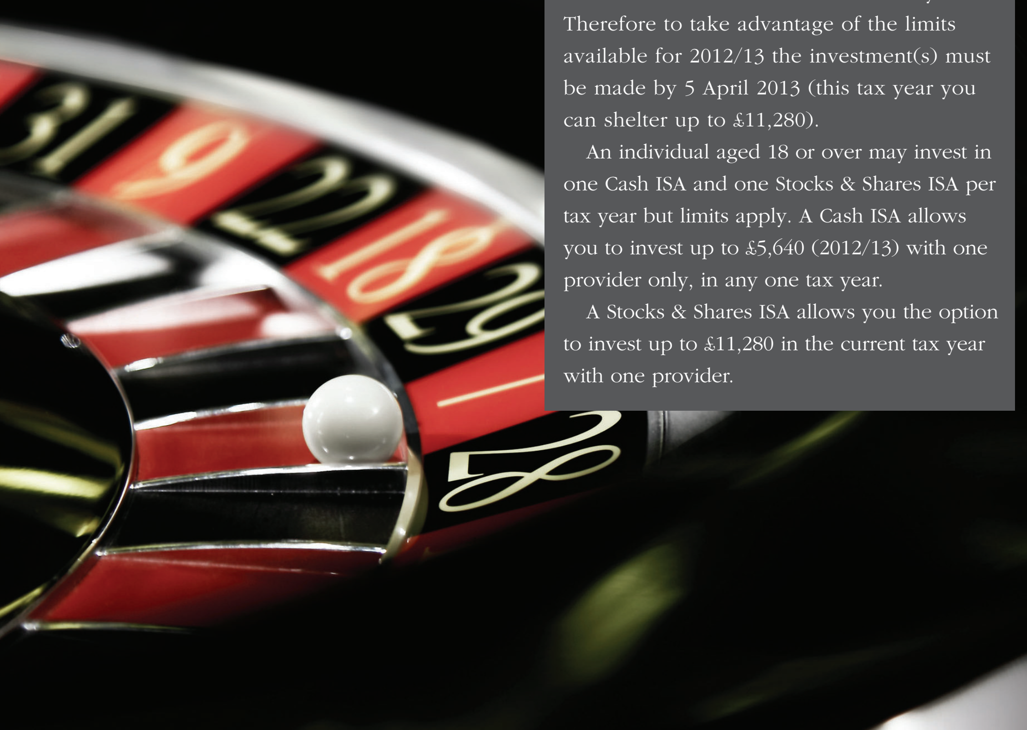
No CGT planning should be undertaken in isolation. Other tax and non-tax factors may be relevant, particularly Inheritance Tax, in relation to capital assets.

Individual Savings Accounts

Individual Savings Accounts (ISAs) provide an Income Tax and Capital Gains Tax investment wrapper. The maximum investment limits are set for each tax year. Therefore to take advantage of the limits available for 2012/13 the investment(s) must be made by 5 April 2013 (this tax year you can shelter up to £11,280).

An individual aged 18 or over may invest in one Cash ISA and one Stocks & Shares ISA per tax year but limits apply. A Cash ISA allows you to invest up to £5,640 (2012/13) with one provider only, in any one tax year.

A Stocks & Shares ISA allows you the option to invest up to £11,280 in the current tax year with one provider.



Other investments

National Savings & Investment bank (NS&I) products are taxed in a variety of ways. Some, such as National Savings Certificates, are tax-free.

Single premium life assurance bonds and 'roll up' funds can provide a useful means of deferring income into a subsequent period when it may be taxed at a lower rate.

The Enterprise Investment Scheme (EIS) allows income tax relief at 30 per cent on new equity investment (in qualifying unquoted trading companies) of up to £1m in 2012/13. As long as shares are held for at least three years, the sale of the shares at a profit will be CGT-free (a reduction of the current rate of 28 per cent to 0 per cent).

Any size of capital gain made on the disposal of any kind of asset can be 'deferred' by re-investment into EIS-compliant companies. The deferred gain is then due on the sale of the EIS shares unless the sale is to a spouse or on the death of the shareholder.

Investments in EIS-compliant shares can attract Inheritance Tax business property relief (BPR) equal to 100 per cent of the investment value on gifting or on death.

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 shares in the VCT.

Income Tax relief, currently at 30 per cent, is available on subscriptions for VCT shares up to £200,000 per tax year so long as the shares are held for at least five years.

Finally, review your borrowings. Full tax relief is given on funds borrowed for business purposes. ■

Investments

There is a wide range of investments with varying tax treatments. When choosing investments, always consider the differing levels of risk and your requirements for income and capital in both the long and short term. An investment strategy based purely on saving tax is not advisable.

Isn't it time you took advantage of any tax breaks?

It's important to take advantage of timely tax breaks. To investigate the opportunities available to you, please contact us today.

Don't gamble with your money, start planning now.

Contact us today.

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