

# PRACTICAL TAX TIPS

TO HELP GUIDE YOU  
THROUGH THE TAX SYSTEM



TAX TIPS 2013/14

# PRACTICAL TAX TIPS

## TO HELP GUIDE YOU THROUGH THE TAX SYSTEM

**The tax system in the UK is increasingly complex. It may affect you, your family and your business; for instance...**

### **The Family**

Could you save tax by a more efficient distribution of assets and income around the family?

### **Your Business**

Do you have a business plan?  
Is your business structured in the most effective way?

### **Selling your Assets**

Have you planned to make the most of capital gains tax reliefs?

### **Tax Efficient Savings**

Are you making the most of them?

### **Looking Ahead**

Have you made adequate provision for your retirement?

**This guide will answer all of these questions and more! It will help you make sense of the system and make sure you get the most out of it.**

**Please use it to identify areas where you could take action (we've included a handy notes page at the back of the booklet). Then contact us for advice and to discuss the most appropriate way forward.**

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# TAXATION OF THE FAMILY

Married couples are subject to a system of independent taxation which means that husbands and wives are taxed separately on their income and capital gains. The effect is that both have their own allowances and tax bands for income and capital gains tax (CGT) purposes and are responsible for their own tax affairs.

Where an individual's income is above £100,000 their allowances are gradually reduced.

2013/14 INCOME TAX RATES	
£	%
0 - 2,790	10*
0 - 32,010	20**
32,011 - 150,000	40***
Over 150,000	45****
* Only applicable to dividends and savings income. The 10% rate is not available if taxable non-savings income exceeds £2,790.	
** 10% on dividends	
*** 32.5% on dividends	
**** 37.5% on dividends	
Other income taxed first, then savings income and finally dividends.	

Children are independent people for tax purposes and are therefore entitled to their own allowances and tax bands. It may be possible to save tax by generating income or capital gains in the children's hands.

Separation and divorce can have significant tax implications. In particular, the following areas warrant careful consideration:

- current and future tax allowances

- transfers of assets between spouses.

## Married Couples

Everyone is entitled to a basic personal allowance. This allowance cannot be transferred between spouses. Where one spouse was born before 6 April 1935, a married couple's allowance is available. This is generally given to the husband although it is possible, by election, to transfer it to the wife.

In general, married couples should try to arrange their ownership of income producing assets so as to ensure that personal allowances are fully utilised and any higher/additional rate liabilities minimised. Generally, when husband and wife jointly own assets, any income arising is assumed to be 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 one exception is dividends from jointly owned shares in 'close' companies which are taxed according to the actual ownership of the shares. Close companies are broadly those owned by the directors or five or fewer people. For example if a spouse is entitled to 95% of the income from jointly owned shares that spouse will pay tax on 95% of the dividends from those shares. This measure is designed to close a perceived loophole in the rules and does not apply to income from any other jointly owned assets.

# TAXATION OF THE FAMILY

## TAX TIP

Review the income split between husband and wife. Consider transferring assets to even up incomes. If the husband or wife is self employed their spouse could be employed or taken into partnership as a means of redistributing income. HMRC may however look closely at such situations to ensure that it does not amount to an 'arrangement' to transfer income from a higher/additional rate taxpaying spouse to one liable at the basic rate.

Each spouse's CGT liability is computed by reference to their own disposals of assets and each is entitled to their own annual exemption, currently £10,900. Gains above this level will be charged to tax at a rate of 18%, 28% or a combination of both rates, dependent on an individual's total taxable gains and income.

CGT savings may be made by ensuring that maximum advantage is taken of annual exemptions.

This can often be achieved by transferring assets between spouses before sale - a course of action generally having no adverse CGT or inheritance tax (IHT) implications. Advance planning is vital and the possible income tax effects of transferring assets should not be overlooked.

## Children

It may be possible for tax savings to be achieved by the transfer of income producing assets to a child so as to take advantage of the child's personal allowance, starting rate (10%) and basic rate (20%) tax bands.

This cannot be done by the parent if the annual income arising is above £100 (gross). The income will still be taxed on the parent. However, transfers of income producing assets by others (eg grandparents) may still be effective.

Children or any other person whose personal allowances exceed their income are not liable to tax. Where income has had tax deducted at source, a repayment claim should be made. Remember that tax credits on dividends are not repayable.

## TAX TIP

A parent can allow a child to use any entitlement to the CGT annual exemption by using a 'bare trust', ie an arrangement whereby a beneficiary has an absolute right to property and income but the trustees are the legal owners.

# TAXATION OF THE FAMILY

## Child Trust Fund

The Child Trust Fund was introduced from April 2005. The government has now stopped all contributions to existing Child Trust Funds (CTF). In addition, no new CTF will be opened.

For CTF accounts already in existence, they will continue to be CTF accounts until the child reaches 18, with no withdrawals permitted. Consequently, they will continue to benefit from tax free investment growth.

Friends and family will continue to be able to contribute up to a total of £3,720 a year into them.

## The Junior ISA

The government has introduced a new tax free children's savings account following the end of CTF eligibility.

The new account has the following key features:

- all returns are tax free;
- funds placed in the account are owned by the child and will be locked in until the child reaches adulthood;
- investments are available in cash or stocks and shares;
- annual contributions are capped at £3,720 per year; and
- there are no government contributions into the account.

Eligibility for the new account has been backdated to ensure that no child born before or after the period of CTF eligibility will miss out on the chance to have one of the accounts.

## Child Tax Credit

The Child Tax Credit is means tested and potentially available to families who have responsibility for one or more children.

It is a tax-free payment made direct to the main carer. There are several elements to the credit but broadly the maximum is an annual amount of £2,720 per child together with a family element (one per family) of £545 per annum.

## Marriage Breakdown

Marriage breakdown often involves the transfer of assets between husbands and wives. Unless the timing of any such transfers is carefully planned there can be adverse CGT consequences.

If an asset is transferred between a husband and wife who are living together, the asset is deemed to be transferred at a price that does not give rise to a gain or a loss. This treatment continues up to the end of the tax year in which the separation takes place.

CGT can therefore present a problem where transfers take place after the end of the tax year of separation. IHT, on the other hand, will not cause a problem if transfers take place before the granting of a decree absolute on divorce. Transfers after this date may still not be a problem as often there is no gratuitous intent.

# TAX AND THE EMPLOYEE

Employees' income tax is collected by HMRC under the Pay As You Earn (PAYE) system. Each employee is given a tax code number and the employer deducts tax from earnings by reference to that number.

Many code numbers are incorrect and you should always check your number and contact HMRC if you are unsure. Code numbers reflect many items, including tax you may owe on benefits in kind.

Common benefits include cars and private medical insurance.

## Expense Payments

If your employer reimburses you for expenses you incur whilst out on business, you would have thought that there could be no tax bill. However, this is not always the case and you should check the system used by your employer. Otherwise, you could end up paying too much tax.

At the end of each tax year, your employer has to send a summary of all of your benefits to HMRC, generally on form P11D. This will include all payments made to you to cover expenses such as subsistence and hotel bills. You, as an individual, can then write to HMRC and claim tax relief on expenses you originally paid out of your own pocket wholly for business purposes. Of course, the answer may be that nothing is taxable and so employers can ask to be excluded from this process if they write to HMRC. This is known as a dispensation.

## TAX TIP

Check whether your employer has a dispensation. If not you will need to make entries on your tax return to:

record the benefits and expenses as income

claim a deduction for the business element of the expenses.

If you do not receive a tax return you should write directly to HMRC to make a claim.

## Mileage Claims

Many employers pay a standard rate of mileage to all employees who use their own cars for business. The maximum rates that can be paid tax-free are set out in the legislation and are as follows:

Up to 10,000 miles - 45p

Over 10,000 miles - 25p

If you are paid for business miles at less than the authorised rate, you can write to HMRC and ask for tax relief on the difference.

## EXAMPLE

Dave is a basic rate taxpayer and travels 4,100 business miles per year in his car and is paid 32p per business mile by his employer.

Dave's tax relief claim is:	£
4,100 miles @ 45p:	1,845
Less: actually paid	
4,100 @ 32p:	(1,312)
Total:	<u>£533</u>
Repayment due:	
£533 x 20% =	£106.60

# TAX AND THE EMPLOYEE

Furthermore, the employer is able to pay an additional 5p per mile tax-free to the employee if they take a fellow employee on a business journey as a passenger.

## TAX TIP

Remember to check your mileage allowances and write to HMRC for your repayment of tax if appropriate.

## Company Cars

Company cars are taxed by reference to the list price and the carbon dioxide (CO<sub>2</sub>) emissions measured in grams per kilometre. Low emission cars (up to 95gm/km in 2013/14) are charged at 10% of the list price building up to a maximum of 35% for high emission cars (215gm/km and above in 2013/14).

CO<sub>2</sub> emissions are recorded on the Vehicle Registration Document (V5). If the car has a diesel engine there is a 3% supplement, up to the maximum of 35%.

A 0% rate applies to cars which cannot emit CO<sub>2</sub> when driven.

A 5% rate applies to cars with emissions which do not exceed 75gm/km when driven.

For cars registered before 1 January 1998, the charge is based on engine size.

## TAX TIP

Remember to check your tax code to make sure the value of the benefits reflected in it, especially the company car, are correct. HMRC often make mistakes!

## Private Fuel

A separate charge applies where private fuel is provided in addition to a company car, unless the employee reimburses the employer for all private mileage (including travel between home and work).

The charge is calculated by applying the percentage figure used to calculate the company car benefit to a fixed figure which for 2013/14 is set at £21,100.

## TAX TIP

If you are provided with private fuel, check the amount of tax you are paying compared to the actual cost of fuel on your private mileage. It may be that it is cheaper to opt out of employer provided private fuel and pay for it yourself.



# TAX AND THE EMPLOYEE

## Medical Insurance

The provision of private medical insurance is a taxable benefit.

## Phones

Private home telephone bills, including rental charges, which are paid for by the employer will be taxed as a benefit. There is no taxable benefit for private calls using a company mobile phone, limited to one phone per employee.

## Broadband

There is generally no benefit on the provision of home broadband access where the employer subscribes for the service for the employee's home and the employee needs this access to carry out their job.

## Social Functions for Employees

HMRC will not tax as a benefit a Christmas party or other annual functions provided the total VAT-inclusive cost of the events in a tax year is less than £150 per head.

## Cheap or Interest-Free Loans

If loans made by the employer exceed £5,000 in a tax year, tax is chargeable on the difference between the interest paid and the interest due at the official rate, currently 4%. This situation often occurs with directors who overdraw their loan or current account and special attention should be paid to this issue, as HMRC often check up on it.

## National Insurance

In general employees' national insurance (NI) is not due on benefits in kind except vouchers, stocks and shares, the payment of an employee's personal liability and benefits provided by way of 'readily convertible' assets.

Most benefits in kind however are subject to Class 1A (an employer's NI contribution). As this currently amounts to 13.8% of the taxable value of the benefit, businesses may need to consider the tax efficiency of providing benefits.

## TAX TIP

Generally contributions by your employer to a pension scheme are tax and NI free. This may be far better than any other perk. If you plan to give up some of your 'normal' salary to do this, talk to us to make sure your salary sacrifice scheme is effective.

# TAX AND THE EMPLOYEE

## Childcare Costs

Employees are exempt from both tax and NI on childcare provided in an employer operated nursery. This includes employees of other organisations if they work at the same location as the employer's staff. There is no financial limit on the relief.

For employees who entered a scheme before 6 April 2011, childcare vouchers provided by the employer are also exempt from tax and NI. However the exemption is limited to £55 per week for 2013/14 and any excess is liable to both tax and NI.

Any formal registered childcare or approved home childcare contracted for by the employer such as a local nursery, out-of-school club or childminder is exempt from both tax and NI but as with vouchers the exemption is limited to £55 per week for 2013/14.

Where schemes operate they should be open to all employees

## Restrictions on Relief

The limit on the amount of exempt income associated with childcare vouchers and directly contracted childcare for employees joining an employer's scheme is restricted in cases where an employee's earnings and taxable benefits are liable to tax at the higher or additional rate.

Anyone already in a scheme by 5 April 2011 is not affected by these changes as long as they remain within the same scheme.

To identify what rate of tax an individual employee will pay in any one tax year an employer will need to carry out a 'basic earnings assessment' for any employee who joins an employer supported childcare scheme on or after 6 April 2011.

Broadly, the employer has to calculate the contractual salary and benefits after deducting the personal allowance.

If the level of estimated earnings and taxable benefits is equal to or below the equivalent of the sum of personal allowances and the basic rate limit for the year (currently £41,450), the employee will be entitled to relief on £55 exempt income for each qualifying week.

If the level of estimated earnings and taxable benefits exceed the equivalent of the sum of personal allowances and the basic rate limit for the year (currently £41,450), but falls below the limit at which tax becomes payable at the 45% rate limit for the year (currently £150,000), the employee will be entitled to relief on £28 exempt income for each qualifying week.

If the level of estimated earnings and taxable benefits exceed the equivalent of the 45% rate limit for the year (currently £150,000), the employee will be entitled to relief on £25 exempt income for each qualifying week.

Similar rules apply for NI purposes.

# PENSIONS, SAVINGS AND INVESTMENTS

## Looking Ahead

Pensions are one of the most important areas of long-term savings considerations and one of the most tax efficient. A higher rate taxpayer can contribute £100 to a pension fund at a cost of only £60, so why do so many of us put the matter off?

A new pensions regime took effect in April 2006 and created a single set of tax rules for all registered pension schemes.

Under this regime, there is no restriction on the amount of contributions an individual can pay into a registered scheme, only on the amount of tax relief given. This means that unlimited contributions may be made to, and retained by, a registered pension scheme. Investment income and capital gains will accrue tax-free within the fund.

An individual will be entitled to tax relief on personal contributions in any given tax year up to the higher of £3,600 or 100% of 'relevant UK earnings' (broadly employment income or trading profit).

Contributions are paid net of basic rate tax. The pension provider will then recover this from HMRC. Contributions will be eligible for higher or additional rate tax relief, if appropriate.

Under the simplified regime there is a single rule for allowing a deduction in respect of employer contributions to a registered pension scheme. It provides for a deduction subject to the contributions actually being paid in the period and made 'wholly and exclusively' for the purpose of the business.

## TAX TIP

Relief may be available to businesses for substantial employer contributions on behalf of employees.

Despite there being no limits on contributions that can be paid into registered schemes, the annual allowance acts as a control.

The annual allowance provides for the annual increase in an individual's rights under all registered pension schemes to be calculated. This is then compared with the annual allowance and any excess charged to income tax at the individual's highest rate of tax. For 2013/14 the annual allowance is set at £50,000. Any unused annual allowance may be available to carry forward for up to three tax years.

The second key control under the regime is the lifetime allowance. Although individuals can save as much as they like in registered schemes, when they start to draw benefits the value of their fund is tested against the lifetime allowance and any excess subject to the lifetime allowance charge. The lifetime allowance for 2013/14 is £1.5 million.

Where funds in excess of the lifetime allowance are taken as a lump sum the rate of charge is 55%. The lifetime allowance charge on the balance of funds in excess of the lifetime allowance is 25%.

The rules can be complicated and advice should be taken before making substantial contributions.

# PENSIONS, SAVINGS AND INVESTMENTS

## Tax-Free Savings

### ISAs

Individual savings accounts (ISAs) provide an income tax and CGT free form of investment.

The maximum investment limits are set for tax years. To take advantage of the limits available for 2013/14 the investment(s) must be made by 5 April 2014.

### ISA INVESTMENT LIMITS

#### MAX. INVESTMENT PER TAX YEAR

2013/14	£
Overall annual investment limit	11,520
Comprising	
- cash up to	5,760
- balance in stocks and shares	11,520

In practice most ISA providers sell ISAs solely investing in stocks and shares. Banks and building societies provide cash ISAs.

16 and 17 year olds are able to open cash ISAs.

### Other Investments

There are a variety of other tax efficient savings products, many of which work in completely different ways. You should consider your needs in detail before entering into any commitments. Examples include:

#### National Savings products

- these are taxed in a variety of ways. Some, such as Savings Certificates, are tax-free.

**Single premium insurance bonds** and 'roll up' funds 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)

- income tax relief at 30% is available on new equity investment (in qualifying unquoted trading companies) of up to £1 million in 2013/14. CGT exemption is given on shares held for at least three years.

Where gains are reinvested in EIS shares, the capital gains realised on the sale of any chargeable asset (including quoted shares, holiday homes etc) can be deferred.

#### Venture Capital Trusts (VCT)

invest in the shares of unquoted trading companies. An investor in the shares of a VCT will be exempt from tax on dividends and on any capital gain arising from disposal of the shares in the VCT. Income tax relief currently at 30% 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.

#### Seed Enterprise Investment Scheme (SEIS)

- is heavily based on EIS and gives income tax relief at 50% in respect of new equity investment (in qualifying, but 'small', unquoted trading companies) up to an annual maximum investment of £100,000. CGT exemption is given on shares held for more than three years. A CGT exemption may apply to certain gains realised in 2012/13 and 2013/14 and reinvested in SEIS. Both EIS deferral and SEIS exemption cannot be claimed in respect of the same gain.

# CAPITAL GAINS TAX (CGT)

Do you sometimes have to pay CGT? Or do you own assets which might give rise to a capital gain when sold? If so then read on for important information about the CGT system.

## CGT Charges

For 2013/14, gains are liable to CGT at 18% where an individual's total taxable gains and income, after taking into account all allowable deductions including losses, personal allowances and the CGT annual exemption, are less than the upper limit of the income tax basic rate band £32,010. A 28% rate applies to gains or any parts of gains above this limit.

## Entrepreneurs' Relief

'Entrepreneurs' Relief' (ER) was introduced from April 2008, available for capital gains arising on the disposal of a business.

The effect of the relief is to charge qualifying gains at 10%. The relief is available for gains up to a lifetime limit of £10 million for gains arising on or after 6 April 2011. The limits were £5 million for gains arising on or after 23 June 2010 and before 6 April 2011, £2 million for gains arising between 6 April 2010 and 22 June 2010 and £1 million between 6 April 2008 and 5 April 2010.

The conditions for ER are based broadly on the old Retirement Relief but the new rules are designed to be simpler:

- there is no minimum age limit; and
- the relief is available where the relevant conditions are met for a period of one year.

The relief applies to gains arising on the disposal of the whole, or a part, of a trading business that is carried on by the individual, either alone or in partnership. Where a business ceases, relief is available on gains on assets used in the business and disposed of within three years of cessation.

The relief also applies to gains on the disposal of shares in a trading company, or holding company of a trading group, provided that the individual making the disposal:

- has been an officer or employee of the company, or of a company in the same group of companies; and
- owned at least 5% of the share capital of the company and that holding enables the individual to exercise at least 5% of the voting rights.

Where an individual qualifies for ER on a disposal of shares, relief may also be available in respect of any 'associated disposals' of assets which were owned personally and used in the company, or group's, business. A similar rule may allow relief on an associated disposal by a member of a partnership who is entitled to relief on the disposal of their interest in the assets of the partnership.

# CAPITAL GAINS TAX (CGT)

Trustees are also able to benefit from ER if a beneficiary of the trust with an interest in possession relating to those assets is involved in carrying on the business in question, personally or as a partner. In the case of shares, the beneficiary must qualify as an officer or employee of the company in question and own at least 5% of the shares personally.

The above is only a brief summary of the relief. Please contact us if you would like to know more

## Main Residence

An individual's or married couple's only or main residence, including land up to half a hectare, is exempt from CGT. Land in excess of half a hectare may also qualify for relief if certain conditions are met. If a property has not been the only residence throughout the period of ownership the relief may be restricted.

Periods of absence from the main residence may not qualify for the relief although the last three years of ownership will automatically qualify provided the property has qualified at some point during the period of ownership. In addition if a property has been let during any absences a further 'letting relief' may be available.

## TAX TIP

If you have more than one home, you can choose which one should benefit from the CGT exemption. This requires an election and needs careful thought to ensure any available exemption is maximised.

## Bed and Breakfast - Alternatives

Bed and breakfasting is the term used for the sale and almost immediate repurchase of the same shares. It used to be an effective way of realising gains which would be covered by the annual CGT exemption or to utilise losses. However changes to the CGT rules have rendered this ineffective.

## TAX TIP

There may be ways around this:

- sell shares from your personal portfolio and repurchase through an ISA
- a sale by one spouse followed by the repurchase in the name of the other spouse
- wait 30 days before repurchase.

## Deferring Gains Through EIS Investments

The Enterprise Investment Scheme (EIS) scheme allows individuals to defer capital gains made on the disposal of any asset so long as the gain is reinvested in shares in an EIS qualifying unquoted trading company.

The deferred gain crystallises on a subsequent disposal of the shares unless certain conditions are breached before that time. Please note:

- certain trades (eg property development and farming) are excluded
- the shares must be acquired by subscription - ie only new shares qualify
- the EIS scheme is complex and advice is essential.

# INHERITANCE TAX (IHT) PLANNING

IHT is charged on a person's estate when they die and on certain gifts made during their lifetime.

The rate of tax on death is 40% and 20% on lifetime chargeable transfers. The first £325,000 is not chargeable. This exemption is known as the nil rate band.

Most gifts made more than seven years before death will escape tax. Therefore, if you plan in advance, gifts can be made tax-free. The result can be a substantial tax saving.

We give guidance below on some of the main opportunities for minimising the impact of the tax.

## Estate Planning

Much estate planning involves making lifetime gifts of capital to use exemptions and reliefs or to benefit from a lower rate of tax on lifetime transfers.

Any plan must take account of your circumstances and aspirations. The need to ensure your financial security (and your family's) cannot be ignored. If you propose to make gifts, the interaction of IHT with other taxes needs to be considered carefully.

If you do nothing you may become exposed to a large IHT liability.

## Wills

As the main IHT liability is likely to arise on death, a sensible and up to date Will is important.

## CHECKLIST

- Do you have a Will?
- Where is it kept - do you and your family know?
- Is it up-to-date?
- Does your Will make full use of IHT exemptions and reliefs?
- Do you have adequate life assurance?

## TAX TIP

In the two year period following a death, the terms of a Will can be varied or disclaimed by using a Deed of Variation.

## Using the nil rate band

On death it is vital to ensure that the nil rate band, currently £325,000, is used, assuming that it has not already been utilised over the last seven years.

One historic problem is that transfers between spouses are exempt from IHT. This could cause a loss of the nil rate band to one spouse.

### Example

John dies leaving the whole of his estate of £800,000 to his wife Jane. A few years later Jane dies, leaving her whole estate of £900,000 to her children.

# INHERITANCE TAX (IHT) PLANNING

Under the old rules, on John's death there was no IHT, as transfers between husband and wife were exempt but on Jane's death the IHT payable was based on £575,000 (£900,000 less the current nil rate band of £325,000).

The problem has now been addressed by allowing the proportion of the nil rate band unused on the death of the first spouse to be used against the estate of the surviving spouse when they die. These rules apply where the surviving spouse dies on or after 9 October 2007.

So to continue with the example, under the new rules, on John's death there will still be no IHT due, as transfers between husband and wife are still exempt. However, on Jane's death the nil rate band not used on John's death will be available against Jane's estate, as well as her own nil rate band. The IHT payable will be based on £250,000 (£900,000 less the current nil rate band of £325,000 x 2).

Whilst the new rules certainly help, further careful planning could eliminate this bill entirely.

## Exemptions

There are many valuable IHT exemptions. The main ones follow. Ensure you're making full use of them!

### Annual exemption

£3,000 per tax year may be given by an individual without an IHT charge. An annual exemption may be carried forward to the next year but not thereafter.

### Small gifts

Gifts to individuals not exceeding £250 in total per tax year per recipient are exempt.

### Normal expenditure out of income

Gifts made out of income which are typical and habitual and do not result in a fall in the standard of living of the donor are exempt eg the payment of annual premiums on life insurance policies would usually fall within this exemption.

### Family maintenance

A gift for family maintenance does not give rise to an IHT charge. This may include the transfer of property made on divorce under a court order, gifts for the education of children or maintenance of a dependent relative.

### Wedding presents

Gifts in consideration of marriage are exempt up to £5,000 if made by a parent with lower limits for other donors.

### Gifts to charities

Gifts to registered charities are exempt provided that the gift becomes the property of the charity or is held for charitable purposes.



# INHERITANCE TAX (IHT) PLANNING

## Reliefs

When business or agricultural property is transferred there is a percentage reduction in the value of the transfer. Often this provides 100% relief. In cases where full relief is available there is little incentive, from a tax point of view, to make lifetime transfers of such assets. Additionally no CGT will be payable where the asset is included in the estate on death.

However the reliefs may not be so generous in the future and therefore gifts now may be advisable.

What will happen to any business or agricultural property included in your estate on death? Leaving it to your spouse will waste any available relief. Consider leaving such property to someone else.

## Life Assurance

Life assurance arrangements can be used as a means of removing value from an estate and also as a method of funding IHT liabilities.

A policy can also be arranged to cover IHT due on death. It is particularly useful in providing funds to meet an IHT liability where the assets are not easily realised, eg family company shares.

## TAX TIP

Have you considered a trust to ensure any life assurance proceeds are not taxable as part of your estate on death?

## TAX TIP

### Use of trusts

Trusts can provide an effective means of transferring assets out of an estate whilst still allowing flexibility in the ultimate destination and/or permitting the donor to retain some control over the assets. Provided that the donor does not obtain any benefit or enjoyment from the trust, the property is removed from the estate.

# TAX AND YOUR BUSINESS

The most important word to bear in mind when you start out in business is 'preparation'. Spending some time creating a business plan can be invaluable. It will bring to mind many issues which you may not have considered, such as financing, numbers of employees and the business structure, which will help you meet your aims. Do you want to run the business by yourself or in partnership with someone else, or would you rather trade under the umbrella of a limited company?

## Sole Trader

This is the simplest form of business since it can be established without legal formality. However, the business of a sole trader is not distinguished from the proprietor's personal affairs.

## Partnership

A partnership is similar in nature to a sole trader but because more people are involved it is advisable to draw up a written agreement and for all partners to be aware of the terms of the partnership. Again the business and personal affairs of the partners are not legally separate.

## Company

The business affairs are separate from the personal affairs of the owners but there are legal regulations to comply with.

The appropriate structure will depend on a number of factors including consideration of taxation implications, the legal entity, ownership and liability.

## TAX TIP

There are various ways of extracting profits from a company although careful consideration of the level and method needs to be given. For example employer contributions to an approved pension scheme are tax and NI free!

## Limited Liability Partnerships (LLPs)

LLPs are a half-way house between partnerships and companies. They are taxed in the same way as a partnership but are legally a corporate body. This means that the personal affairs of the members can be separated from the business affairs.

## Important Choices

Some matters are broadly the same no matter which route you take.

### Year end

Choosing the right year end may, in some circumstances, defer a tax bill but there will also be other commercial issues to consider.

### Expenses

Tax will be due on the profits of your business but not all expenses the business incurs are tax deductible. Careful thought needs to be given as to when and how much money is going to be spent.

# TAX AND YOUR BUSINESS

In general, it is best to incur expenditure just before rather than just after the year end, as this will accelerate your tax relief. However, it is important that you keep proper and comprehensive business records so that relief may be claimed. Examples of the type of expenditure to consider bringing forward include:

- building repairs and redecorating
- advertising and marketing campaigns
- redundancy and closure costs
- expenditure on plant and machinery.

## Capital allowances

### Plant and machinery

The Annual Investment Allowance (AIA) gives a 100% write-off on most types of plant and machinery costs, including integral features and long life assets but not cars, of up to £250,000 p.a. (£25,000 for expenditure incurred before 1 January 2013 and £100,000 for expenditure incurred before 6 April 2012 (1 April 2012 for companies). Special rules apply for accounting periods straddling these dates.)

Any costs over the AIA fall into the normal capital allowance pools below. The AIA may need to be shared between certain businesses under common ownership.

### Other allowances

The annual rate of allowance is 18%. An 8% rate applies to expenditure incurred on integral features and on long life assets.

A 100% first year allowance may be available on certain energy efficient plant and cars, including expenditure incurred on new and unused zero emission goods vehicles.

### Cars

For expenditure incurred on cars, costs are generally allocated to one of the two plant and machinery pools. For expenditure incurred on or after 6 April 2013 (1 April 2013 for companies) cars with CO<sub>2</sub> emissions not exceeding 130gm/km receive an 18% allowance p.a. Cars with CO<sub>2</sub> emissions over 130gm/km receive an 8% allowance p.a.

## Unincorporated Businesses

Whether you are a sole trader, partnership or LLP, your profits will be taxed on a 'current year' basis, so that the business is taxed on the profits it makes during its lifetime; for example, if the business makes up accounts to 30 April each year, the profits for the year ended 30 April 2013 will be taxed in 2013/14.

By choosing the most appropriate accounting date, the payment of tax can be delayed, with significant cash flow advantages.

Unincorporated businesses usually pay higher rates of tax than a company but significantly less NI.

Administrative costs are generally lower but you are personally liable for debts the business may incur. LLPs go some way to addressing this issue.

# TAX AND YOUR BUSINESS

## TAX TIP

### Cash basis

For 2013/14 onwards, small unincorporated businesses can opt to have taxable profits computed on cash receipts less cash payments. However, the rules are not simple and may not be worthwhile. Please talk to us if this is of interest to you.

## Limited Companies

A limited company may be advantageous, as the directors are not personally liable for outstanding debts. However, a creditor, such as a bank, may require personal guarantees from the director.

Tax rates paid by the company may be lower than those paid by an unincorporated business. However, there are effectively two layers of tax, one payable by the company and the other payable by employees/directors. Thus, profits made by the company need to be extracted by the directors in the most tax efficient manner.

You may wish to consider extracting profits in the form of dividends rather than as increased salary or bonus. This can result in substantial savings in NI. Planning should be undertaken before any money is taken out of the company.

## Paying the Tax

The self employed may have to pay tax three times a year, namely:

- 31 January in the tax year
- 31 July following the tax year

- 31 January following the tax year.

In certain circumstances, the first two payments can be waived.

For limited companies, the payment system can be more complicated:

- PAYE and NI needs to be paid monthly even if the director is the only employee (although for smaller businesses it can be paid quarterly)
- for most companies corporation tax is payable nine months and one day after the end of the accounting period.

As you can see, there are many issues to consider in deciding the best vehicle for your business. Please contact us to discuss the situation in detail.

## And finally - a word of warning

Many family businesses over recent years have sought to maximise tax and NI savings by introducing an otherwise non-working family member or spouse into the business, sometimes as a co-owner.

Transferring assets or interests in a business between husband and wife has always attracted the interest of HMRC. Transfer of ownership of assets have always had to be real and complete, with no right of return and no right to the income on the asset given up.

If you have any questions or concerns, please do not hesitate to contact us.

# VALUE ADDED TAX (VAT)

VAT is a tax payable by the consumer but many businesses are forced to act as unpaid tax collectors. There are heavy fines for failing to operate the system properly. Consequently, you cannot just ignore VAT and there are certain areas you should consider in detail.

## What does VAT apply to?

VAT applies to businesses that make supplies of goods or services. Businesses charge VAT on their sales and this is known as output VAT. Similarly, VAT will be suffered on purchases and this is known as input VAT.

If outputs exceed inputs, payments of tax have to be made to HMRC on a regular basis. If inputs exceed outputs, a repayment of tax will be made to the business. However, there are some types of input VAT, such as VAT on entertainment, that may not be reclaimable.

## Supplies

Certain supplies are not taxable at all and are known as exempt supplies. Others are taxable at the zero rate (0%), reduced rate (5%) or standard rate (20%). If the business makes totally exempt sales, you cannot register for VAT or reclaim any of the input VAT suffered. This can affect the competitiveness of your business.

If the business makes zero rated sales, you can register and reclaim the input tax suffered. Your business can benefit significantly in this situation. However, what constitutes an exempt or zero rated supply can be difficult to decide and may need careful consideration.

## Do I Need to Register?

You only have to register if the taxable supplies made by the business exceed an annual figure, currently £79,000. If your supplies fall below this you may be able to register voluntarily and obtain a repayment. This usually happens when you are making zero rated sales.

### TAX TIP

If you are setting up a business but have not yet started making supplies, you should register so that you can reclaim your input tax on start-up expenses.

## Record Keeping

You must keep detailed records of purchases, sales and expenses, as well as a summary of input and output tax. These records must be kept for six years. Failure to do so can lead to substantial penalties.

# VALUE ADDED TAX (VAT)

## When do I have to make a Return to HMRC?

Generally, once registered you will make a quarterly return to HMRC, summarising the outputs and inputs. It must reach HMRC within one month after the end of the quarter.

Businesses that make zero rated supplies and receive repayments of VAT may find it beneficial to submit monthly returns.

Businesses with expected annual taxable supplies under £1,350,000 may apply to join the annual accounting scheme whereby they will make monthly or quarterly payments of VAT but will only have to complete one tax return at the end of the year.

## Inspection of Records

The maintenance of records and calculation of the liability is the responsibility of the registered person but HMRC will need to be able to check that the correct amount of VAT is being paid over. From time to time therefore an HMRC officer will come and inspect the business records.

The HMRC officer will want to ensure that VAT is applied correctly and that the returns and other VAT records are properly written up.

## Offences and Penalties

HMRC have wide powers to penalise businesses which ignore or incorrectly apply the VAT regulations. Penalties can be levied in respect of the following:

- late returns/payments
- late registration
- errors in returns.

## Cash Accounting Scheme

If your annual turnover is below £1,350,000 you can account for VAT on the basis of the cash you pay and receive rather than on the basis of invoices.

## Retail Schemes

There are special schemes for retailers as it is impractical for most retailers to maintain all the records required of a registered trader.

## Flat Rate Scheme

This is a scheme allowing businesses with taxable turnover not exceeding £150,000 and total turnover not exceeding £230,000 to pay VAT as a percentage of their total turnover. Therefore no specific claims to recover input tax need to be made. The aim of the scheme is to simplify the way small businesses account for VAT.

Please talk to us if you are interested in any of the special schemes.

## THE KEY

Most problems with VAT arise from poor record keeping and lack of understanding of the VAT system. Remember, we can help you with both and make life a lot simpler.

