2011-12

YEAR END TAX REVIEW

Smith-Milne & Co.
Chartered Certified Accountants

Smith-Milne & Co Limited
Park Farm House
Ducks Hill Road
Northwood
Middlesex
HA6 2NP

t: 01923 83 23 03
f: 01923 83 23 06
e: office@smithmilne.co.uk
w: www.smithmilne.co.uk

ACCA

Director
Justin Smith-Milne FCCA

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In a time of uncertainty...

British politicians argue about the best way to sort out the country's finances. European politicians argue about the best way to keep the euro afloat. The only things that seem certain at the moment are political arguments, tax increases and reductions in public spending. Governments are running out of cash and they would like us all to contribute – taxpayers have to take extra care to avoid paying more than they need to. This newsletter explains some of the ideas that can be built into an annual review of your tax affairs in order to save you money.

Tax rules change all the time, so plans that have made sense in the past may need to be reviewed. The Chancellor's economic predictions have become more pessimistic over the last year, so we can expect HM Revenue & Customs to be even keener to collect whatever they can in the next few years. Under self-assessment, last year's return should have been submitted and the liability settled by 31 January: between then and the end of the tax year (5 April) is a good time to take stock and make sure that you are as well defended against the taxman as you can be.

Of course, the best plans are not hurried - the last day of the tax year, when most plans ought already to have been implemented, is not the best moment to consider things for the first time. If you think ahead and act in good time, you can save money.

Some of the ideas in this newsletter stay the same from year to year, some change a little, some are completely new. Of course, the precise circumstances of each individual have to be taken into account in deciding whether any particular plan is suitable or advantageous - but these suggestions may give you some ideas to discuss with your advisers.

Transfer window

Everyone has a 'personal allowance' of tax-free income (£8,105 in 2012/13), and the next £34,370 is taxed at 20%. A single person with income of £84,950 pays £6,874 income tax on the first £42,475 and £16,990 on the next £42,475 (taxed at 40%). If the income includes dividends, which are taxed at different rates, the amounts may vary.

The problem is that not everyone can use their allowances in full. In a family where one partner goes out to work and the other raises the children, the carer (and the children) may not have much income. If the 'breadwinner' is a higher rate taxpayer, this is a waste.

Take two couples. In one, each partner has £45,000 in salary. They'll pay about £12,120 in tax and NIC each, £24,240 in all. That's just under 27% of their combined income of £90,000. In the other couple, one partner gets £90,000, and the other has no income. The earner pays about £31,020 in tax and NIC - over a quarter more than the couple who split their income. If the income isn't subject to NIC, the difference gets bigger - there's more NIC to pay on two separate salaries than on one big one.

It is not always easy to transfer income between husband and wife in order to take advantage of allowances, but the following methods are possible:

- an outright gift of savings and investments which produce taxable income;
- putting savings and investments into joint names and sharing the income;
- employing the spouse in a business;
- taking the spouse into partnership.

HMRC can challenge some of these if they think the transfer is not genuine - it's important to take advice to be sure that the plan will work.

The biggest saving (about £10,000) comes from moving £42,475 in investment income to someone with no income, but smaller gifts are also worthwhile. A 40% taxpayer can save £400 a year on a transfer of just £1,000 of taxable interest income if the spouse stays below £8,105 in total.

Capital gains are easier to pass on for tax. If you are likely to realise a gain above your annual exemption (£10,600), you could transfer the asset to your spouse first and save up to £1,908 (if you are a basic rate taxpayer) or £2,968 (if you pay income tax at 40% or 50%).

If you want to discuss whether this idea could save you money, we will be happy to help.

This year, next year

If you run a business - as a sole trade, partnership or limited company - the end of your accounting period is an important date for tax planning. You can move income and expenditure between periods, changing the rate of tax and delaying tax payments, by reviewing plans for purchases and sales of capital assets or the payment of bonuses and other significant expenses.

If the accounting date is different from the end of the tax year, there are some advantages and pitfalls in the mismatch between the two - for example, a salary payment may give the company tax relief either earlier or later than it is charged to tax on the employee. It's worth thinking about the opportunities and the possible problems around the two year-ends.

There will be big changes to the capital allowances for plant and machinery on 1 April 2012 (6 April for income tax trades). The annual investment allowance (AIA) falls from £100,000 to £25,000, and writing down allowances (WDA) fall from 20% on most plant (and 10% on the 'special rate pool') to 18% (and 8%). If your accounting period straddles 1/6 April, the AIA rules are complicated – if you are buying any plant in the near future, it will be worth checking what the tax relief will be and considering whether to move the date of purchase forward or back.

ACTION POINT:
HAVE YOU REVIEWED THE LIKELY TAXABLE PROFITS BEFORE YOUR YEAR END?

Do I have to pay that now?

PAYE collects most or all of an employee's tax before salary is received. The self-employed usually pay most of their tax through self-assessment (SA). This normally involves making payments on account (POA) on 31 January during a tax year and 31 July just after the end of it.

The 2011/12 POA, due on 31 January and 31 July 2012, are based on the 2010/11 SA tax. If your final 2011/12 tax is more, you pay the rest on 31 January 2013. If your liability drops, you'll get a repayment when you send your return in - but you'll be out of pocket in the meantime.

It's possible to claim to reduce the POA to 'what they ought to be' before you send in the 2011/12 tax return. You don't need to have a precise calculation, but you can usually tell when the POA will be much too large. If the 2011/12 self-assessed income has fallen - the business has had a bad year, interest rates on your savings are pitiful, or maybe you've taken a job within PAYE instead - it's worth making the claim so the money is in your bank account rather than theirs.

ACTION POINTS:
IS YOUR TAX BILL FOR 2011/12 LIKELY TO BE LESS THAN IT WAS IN 2010/11?

Divide and rule

Income is 'cut up' into fiscal years to decide whether you are subject to higher rates of tax or not in a particular year. Someone who goes over the limit one year and has nothing the next pays much more tax than someone with a steady, level income of the same total amount. If your income might fluctuate, it is worth looking at ways to advance or delay the charge on that income in order to even out the tax rates.

The main rates are the same for 2011/12 and 2012/13, and there are important thresholds for:

- people with income of £100,000 a year - they start to lose the benefit of their tax-free personal allowances, creating an effective tax rate of 60% on the band up to £114,950 (2011/12) or £116,210 (2012/13);
- people with income of £150,000 a year - they will pay income tax at a top rate of 50%.

If you are on the borderline or are likely to cross it next year, it will be worth moving income into whichever year has the lower income. That's so even if you pay tax earlier as a result - 40% now is better than 50% in 12 months.

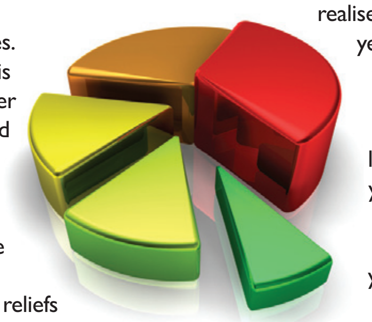
Income that can easily be moved from year to year includes:

- salary (although PAYE means that the payment of the tax cannot be delayed for a whole year);
- dividends from family companies;
- distributions from discretionary trusts;
- tax charges on cashing in some life insurance policies.

Of course, if the tax charge is going to be the same in either year, then most people would rather pay the tax later - if you receive some types of income on 6 April rather than 5 April, you may pay the tax on it a whole year later.

It is also possible to claim reliefs for some types of payment in particular years, in order to make sure that they reduce income taxable at the highest rate. These include pension contributions and charitable donations. There are limits on extra pension contributions, but if you haven't paid the maximum or you are thinking of giving money to charity and you earn around the £100,000 or £150,000 thresholds, it's worth checking whether you should put the payment in one year rather than the other.

ACTION POINT:
CONSIDER MOVING INCOME OR RELIEFS AROUND 5 APRIL



Too much NIC

If you have more than one employment, or an employment and a self-employment, you could end up paying too much in National Insurance Contributions. There is a higher rate of NIC (12% for employees, 9% for self-employed) on the slice of everyone's income above the starting threshold (£7,605 in 2012/13), then a lower charge on income over a set limit (2% above £42,475 in 2012/13). If two employers pay salaries separately, or you have employment and self-employment, you may pay the higher rate on two separate amounts that add up to more than the limit.

It is a simple matter to apply for the limit to be operated on the combined figure, but it is supposed to be done before the start of a tax year in which you are likely to pay too much. It is always easier not to pay NIC than to get it back after overpaying!

ACTION POINT:
COULD THIS AFFECT YOU?

Splitting gains

Everyone has an annual exemption for CGT (£10,600), but you only use it if you dispose of something and realise a gain in the tax year. Making a gain of £50,000 all at once in five years' time is likely to cost you a lot in CGT, but if you can split it up into chunks of £10,000 each year you will pay none.

If you have a portfolio of investments, it's common for your investment manager to sell some near the end of the tax year to trigger capital gains, reinvesting the proceeds in something else. There's a cost in commission, but the tax saving is almost certainly much greater. It's important to make sure the manager knows if you have realised gains on other assets - if you've used up your tax-free allowance elsewhere, the switching plan won't save you tax.

ACTION POINT:
ARE YOU TAKING FULL ADVANTAGE OF THE CGT EXEMPTION?

Penalty spot

The taxman can fine you if your returns are late or wrong. The rules on errors changed in 2009, and everyone is still getting used to a new system where experience won't always tell us how big a penalty is likely. However, it seems that HMRC are taking a hard line and asking for the maximum penalties that the law provides where in the past they might have let the matter drop.

It's still the case that any penalty can be reduced if the taxpayer deals with it swiftly - as soon as an error comes to light it is disclosed to HMRC, the reasons are identified and explained, and the correct tax is paid without delay. If it was just a careless mistake, this 'unprompted disclosure' and full co-operation can avoid a penalty altogether.

Failing to deal with an error is likely to increase the level of penalty if HMRC find out about it later. So it's important not to brush things under the carpet - if you think something may have gone wrong, it's best to face up to it and take advice on how to put things right. We can only help if we have all the available information, so it's important to put us in the picture.

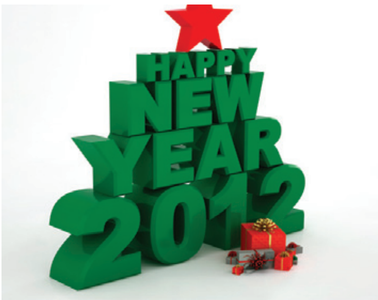
ACTION POINT:
ARE YOU SATISFIED THAT YOUR RETURNS ARE ACCURATE?

A good start for VAT

When you are starting or growing a business, getting your VAT registration right is very important. If you register too early, you have to account for VAT on sales that could have been VAT-free. If you register later than the law requires, you can suffer a penalty. And you might want to register before you have to so that you can claim back VAT on start-up expenses. You can lose out if you incur VAT too long before the date you put on your VAT registration application, because you can't get it back.

You also can't change the date once you've sent the form in - so it's very important to plan ahead and decide when you might want to, and when you might have to, register for VAT.

ACTION POINT:
ARE YOU RUNNING A BUSINESS THAT ISN'T REGISTERED FOR VAT?



Season of good Will

Inheritance tax is often thought of as a tax for the rich, but it is really a tax for the unprepared - the rich have usually made arrangements and pay very little. Although IHT is not charged according to the tax year, an annual review of tax matters can usefully include checking the exposure to IHT and whether anything can be done to mitigate it. In particular, it's useful to have a clear and up-to-date Will, which has been drafted with tax in mind. This is particularly important if you have total assets, including a house and any insurance policies which would be paid to your estate on death, in excess of £325,000 - the current starting point for IHT (frozen for the next few years).

There are a number of standard, unobjectionable measures which people can take to save very significant amounts of IHT. These include:

- reviewing the payees of the proceeds of insurance and pension policies - if the insured person's executors are entitled to the money on a death, there will be unnecessary IHT;
- giving surplus assets away as early as possible - they will fall out of IHT altogether if you survive 7 years after the gift;
- making regular gifts out of surplus income during lifetime rather than saving up for a big legacy on death – the regular gifts are often not chargeable at all, while the big legacy is likely to cost 40% in tax.

Before October 2007, a Will which left everything to a surviving spouse or registered civil partner risked wasting the £325,000 nil rate band. If you drew up a Will before then, you may have been advised to put in an IHT plan to preserve the relief. That's not necessary any more, and it's worth reviewing the Will to see if a different set of arrangements would be more suitable. If you didn't use that particular IHT plan, Alistair Darling may have saved you the trouble – but it's still worth looking at your Will!

ACTION POINT:
HAVE YOU CONSIDERED HOW MUCH IHT YOU MIGHT PAY?

Company cars

Company cars are taxed on a percentage of their original list price, based on the CO_2 emissions rating of the vehicle. The benefit has been raised over recent years to increase the tax on 'gas guzzlers', and 6 April 2012 sees another step in these changes (with one more to come a year later).

From 6 April 2010 we were given a big incentive to use electric cars – anything which cannot produce CO_2 does not create a taxable benefit either (for the 5 years to 2014/15), even if it's a pure perk. For cars rated up to 75g/km, the charge is based on only 5% of the list price.

In 2012/13, the calculation of the percentage changes, particularly at the lower end where it has up to now been 5% (up to 75g/km), 10% (up to 124g/km) and then 15% (at 125g/km). After 6 April 2012, from 76g/km to 99g/km, the charge will be based on 10% of the list price. 11% of list price will apply on ratings from 100g/km to 104g/km, and a percentage point is added at 105g, 110g etc. The percentage for a diesel car is generally 3% higher than the figure for a petrol car with an equivalent rating, but the maximum for either type is 35% (at 205g/km for a diesel and 220g/km for a petrol car).

On 6 April 2013, the threshold for the 10% rate will fall from 100g/km to 95g/km, which will see another percentage point increase in the benefits for all cars rated between 100g/km and the maximum.

The main planning point arises if you are due for a change of company car. You may consider a lower-rated car because of the lower tax charges. You may also think about owning the car yourself and claiming a mileage allowance for business use - the employer can pay 45p a mile tax-free for up to 10,000 miles in a year (and 25p a mile after that).

The taxable benefit when an employer provides free fuel for private motoring in a company car is worked out by applying the same car benefit percentages to a fixed figure (£18,800). It's worth checking that the tax you pay to HMRC isn't more than what you are saving in not paying for petrol. If you pay tax at 40% and have a car rated at 170g/km, the tax on a petrol benefit in 2011/12 is £1,805, and your employer pays NIC of £623. If your private petrol would cost less than £2,428 altogether, it could be cheaper to pay for it yourself than to have it free (hard though that is to understand!).

Fluctuations in the cost of fuel make the sums complicated – and may lead to changes in the rate of taxable benefit from year to year - but it's possible that 'free fuel' is not as good an idea as it sounds.

ACTION POINT:
ARE YOU PAYING MORE TAX THAN YOUR CAR BENEFITS ARE WORTH?

Winding up the taxman

When a company reaches the end of its useful life, it can be formally liquidated – which carries a cost in professional fees – or dissolved under the Companies Acts. If there are surplus assets to be distributed, they are received as capital – liable to CGT, possibly at only 10% – in a liquidation, but they might be argued to be income dividends on a dissolution.

For many years, HMRC have operated a concession: they treat a dissolution as involving only capital distributions as long as all liabilities have been paid and the shareholders promise to declare any gains they have made. This informal practice is to be put into the law with effect from 1 March 2012 – but a limit of £25,000 will be placed on the distribution that can be treated as capital.

If you have larger accumulated profits in a company that you are hoping at some point to extract subject to CGT rates rather than income tax, you will need to consider alternative plans to minimise the tax charge.

ACTION POINT:
DO YOU OWN A COMPANY WITH ACCUMULATED RESERVES?

Can't pay, won't pay?

HMRC have in the past been criticised for being too ready to close a business down if it could not pay its tax. Since late 2008, it has been official policy to be flexible and to try to keep the business going. Delaying a payment to HMRC is likely to be easier and cheaper than extending a bank overdraft.

There are conditions: the taxpayer must be in genuine financial difficulty, and it must be likely to be able to pay if given more time. It is worth having detailed financial information to make a case to HMRC. If the business has no prospect of ever paying the liability, HMRC are likely to take the usual enforcement action and cut their losses. And if the business wants to postpone payment of a liability of £1m or more, an accountant's report will be required to persuade them to accept the situation.

There are some major concessions: if you agree a 'time to pay' arrangement before VAT falls due, there are no default surcharges to pay. A construction industry business can defer tax without losing entitlement to be paid gross.

The important thing is to be prepared. The business is supposed to put a proposal to HMRC before the due date - not wait until HMRC are sending red letters for overdue tax.

ACTION POINT:
COULD YOU MAKE A CASE TO HMRC FOR EASY TERMS ON BUSINESS TAX PAYMENTS?

Home from home

Even if the recession has increased uncertainty and made it much harder to buy or sell property, many people still own houses that are worth more than they cost. Gains on your 'only or main residence' are not taxable (unless you use part of it exclusively for a business purpose), but a second home or an investment property will be chargeable to CGT at 18% or 28%.

If you use more than one property as a residence - that is, you yourself live in them both - you can choose which one you want to be exempt from CGT. You might choose to exempt the one that you live in most of the time, but you are still likely to obtain an advantage - and give yourself greater flexibility in the future - if you make a formal 'election' within two years of acquiring the second home. For example, if you decide to sell the 'second home' first, or if the gain on it is larger than the gain on your main home, it might be useful for it to be exempt.

This arrangement had a bad press recently because some MPs were using the rule to avoid CGT on houses which taxpayers were already buying for them - and they weren't living there at all. But it can be a perfectly respectable plan if it really is your second home.

You can only elect for a 'residence' to be exempt, not an investment property that is let out to others. So a 'buy-to-let' property is chargeable to CGT. But if you are letting out a property that you have lived in, or you move to live in a property that you have let out, you can enjoy significant extra reliefs. It's worth discussing the potential tax charges with your advisers so you know what to expect.

ACTION POINTS:
DO YOU HAVE A SECOND HOME? DO YOU WANT TO 'MOVE-TO-LET'?

Tax-free benefits

The taxman usually wants a slice of any perks or benefits provided by an employer to employees - particularly if they are directors of their own limited company. But there are quite a few benefits that are tax-free by law, and so if your employer buys them for you, that's cheaper than paying you salary (with tax) for you to buy them yourself. There is a long list of possibilities, but here is a selection:

- pension contributions up to £50,000
- childcare vouchers of up to £55pw (for basic rate employees – lower amounts for higher rate taxpayers);
- one mobile telephone where the employer owns the phone;
- vans where the private use is restricted to home-to-work travel;
- loan of a bicycle for commuting;
- health checks for employees or members of the household;
- 45p per mile mileage allowance for business use of your own car;
- annual party costing up to £150 per person attending.

ACTION POINT:
CAN YOU BENEFIT FROM THESE?

Childcare vouchers

The benefit of a workplace nursery provided directly by an employer for employees' children is not taxable. Childcare vouchers are a more practical alternative for a business without the space or resources to provide its own creche. For some years, vouchers up to £55pw could be given without a tax charge on any employee. This has changed for employees joining voucher schemes after 6 April 2011 – the tax exempt amount is now restricted for people who pay tax at higher rates. The idea is that the tax relief should be worth no more than 20% x £55 = £11pw for anyone. Details are available on HMRC's website.

ACTION POINT:
IF YOU RUN A CHILDCARE VOUCHER SCHEME, MAKE SURE YOU KNOW THE RULES

Show me the money

Because Corporation Tax rates are lower than the top rate of Income Tax, company owners may save money by leaving their profits in the business. The company pays tax at 20% at the moment, but if the profit is paid out the owners will pay more tax on the remaining 80%. The problem is that people usually try to make a profit so they can spend it - if it's locked up in the company, there isn't much point in earning it.

There are different tax charges which apply to the alternative ways of taking money out of a company, as well as company law rules which prohibit some transactions, such as dividends where there are no accumulated profits. Successive Chancellors of the Exchequer have continually tinkered with the tax rates for all the taxes involved – Corporation Tax, Income Tax on salaries, interest and dividends, and NIC – so the best course of action can change from year to year.

The difference can be substantial - it's something that's well worth taking advice on.

ACTION POINT:
WHAT'S THE BEST WAY TO GET PROFIT OUT OF YOUR COMPANY?

Online or else

Since April 2010, traders with turnover of more than £100,000 a year and all newly VAT-registered traders have had to file their VAT returns online and pay by electronic transfer. From April 2012, everyone will have to – unless they can persuade HMRC that they have a valid conscientious objection to using computers. A VAT return is quite a simple document to file online, and most businesses have a computer these days - but if you are still entitled at the moment to file on paper, you will need to be ready to change.

ACTION POINT:
ARE YOU PREPARED FOR ONLINE FILING?

Rainy day money

The tax reliefs for pension contributions are there to help you provide for retirement. Most people are reluctant to put enough away, so the taxman offers a big incentive - if you are a higher rate taxpayer, then putting £600 in will buy you £1,000 of investments which are held in a tax-free fund.

You get tax relief on most pension contributions by paying them net of basic rate tax: you give the pension company 80% of the premium, and the government pays the other 20% into your policy. A higher rate taxpayer gets a further 20% through the self-assessment return (and a 50% taxpayer gets a further 30%). If you're having a good year this year - paying 40% or 50% tax - but you are expecting to suffer a downturn and might only pay at 20% next year, you should consider advancing your normal pension payments before 5 April so that you get higher rate relief.

The money is saved up to give you a tax-free lump sum of up to 25% of the fund when you take the benefit and a taxable income after that. Annuity rates have not been attractive in recent years, but if you are going to live a long time there are few better ways to save up the money to live on.

The other big issue at the moment is a change to the rules on taking the benefits. For years it has been a requirement of the tax rules that the policy must be cashed in no later than the holder's 75th birthday. This involved fixing an annuity at that time, which might be disadvantageous. More flexible arrangements are now available under the revised tax law, although not all the pension companies have changed their own rules yet. Anyone who is considering taking their pension – or who is approaching the age of 75 with undrawn benefits – should take advice about the options available.

You can get pension relief on up to 100% of your current earnings to a maximum of £50,000. If you were a member of a pension scheme in the preceding 3 years and didn't use the full £50,000 allowance – even though the rules were completely different before 6 April 2011 – you can pay extra in the current year to catch up. If you have some spare cash available and you want to top up your pension fund, it's worth checking exactly how much you can pay in.

ACTION POINT:
DO YOU NEED TO TAKE ADVICE ABOUT YOUR PENSION INVESTMENTS?

Standard VAT or flat VAT?

A simplified 'flat rate VAT scheme' is available for businesses with VATable turnover of up to £150,000. You pay a lower rate of output tax on your sales, but you don't claim input tax on your expenses. The rate depends on the type of business you are - some rates seem to be generous, and some are less so. It is at least worth considering the figures if you qualify, to see if it might save you money or time, or even both.

There are bigger savings - or pitfalls - if you have two different activities which on their own would have different flat rates. The rules say you should use one rate for the whole business, and it's the one appropriate for the larger part of your turnover. That can be a very good thing or a very bad thing, and it's important to think about it.

Because it's only supposed to be for smaller businesses, you aren't allowed to join the FRS if you are 'associated with' another trade which makes supplies. If you have an interest in more than one business – maybe as a substantial shareholder, sole trader or partner – you shouldn't apply for the scheme without considering carefully whether HMRC would regard the link as breaching this rule

ACTION POINT:
COULD YOU SAVE UNDER THE FLAT RATE SCHEME?

NIC and pensions

If you are a member of an employer's pension scheme, you can contribute from your salary and get tax relief. However, your salary is subject to NIC, and that doesn't get reduced by pension contributions that you pay. Employers currently pay 13.8% on most salaries, and employees pay 12% up to a salary of about £42,475 and 2% above that.

If the employer pays pension contributions directly into the fund on an employee's behalf, there is no income tax and no NIC. Suppose an employee has a salary of £30,000, and gets £1,000 in salary to pay into the fund. That will cost the employer £1,138, and the employee will be able to invest £880 after NIC. If the employer puts £1,000 directly into the fund, there is a saving of £138 and £120 - a combined benefit of £258. It's a very basic plan, but it needs to be done properly to make sure that HMRC can't argue there was 'really' a payment to the employee anyway - it's worth taking advice if you are going to make a so-called 'salary sacrifice'.

ACTION POINTS:
DO YOU MAKE EMPLOYEE CONTRIBUTIONS TO A PENSION SCHEME?

Give and save

There are very generous tax reliefs for gifts of cash and gifts of quoted shares or land to charity. If you are thinking of making any gifts, it is worth thinking about doing so by 5 April in order to enjoy the tax relief in an earlier year.

The relief on cash gifts works by reducing the donor's higher or additional rate tax, and allowing the charity to reclaim the donor's basic rate tax already paid. If a 40% taxpayer gives £800 to charity, the charity claims back £200 (giving it £1,000 in total), and the donor claims back £200 (so the gift costs £600 net of the tax relief). The net cost to a 50% taxpayer would be only £500.

The relief on quoted shares or land has two aspects. Any capital gain disappears and is not charged; and the whole value of the shares or land can be taken off the donor's taxable income for the year. If you have a portfolio with gains in, the shares with the biggest gain would be the most tax-efficient thing to give to charity. For example, a gift of shares worth £10,000 would produce an income tax refund for a 40% taxpayer of up to £4,000. If the shares had a gain of £6,000 in them, the CGT saving would be up to £1,680, so the charity would receive £10,000 for a cost of only about £4,320.

The last few years have seen the introduction of 'carry back gifts' (made in 2012/13 but given tax relief in 2011/12) and 'giving a tax refund to charity' (directing the taxman to pay any refund on your tax return directly to a charity). The carry back rule can be helpful if you find your tax rate for the previous year is higher than it will be for the current year, but the other one doesn't make any difference to your tax – only to who gets the repayment.

A new proposal which may be more useful is the offer of a lower rate of Inheritance Tax on death estates where 10% is left to charity. This is intended to come in for people dying after 5 April 2012, and is worth considering when you are reviewing your will. A charge
at 36% instead of 40% means that you can leave nearly as much to your beneficiaries while making a generous bequest to a good cause.

ACTION POINTS:
IF YOU WANT TO GIVE TO CHARITY, HAVE YOU SHARES WITH GAINS? DO YOU WANT

Unhappy returns

The taxman sometimes seems to believe that the main reason for running a business is to fill in official forms. He wonders how you can be late submitting something to him, when that is the most important task there is!

The penalties for lateness start off annoying and end up very expensive, particularly for VAT. If you have been late filing VAT returns, you will be sent a 'default surcharge liability notice'. If you are late again within 12 months - usually the next four returns - you may have to pay a penalty based on a percentage of the VAT outstanding. The percentage goes up every time you are late - the maximum rate is 15%, which is very harsh if you are just a day over. Sometimes even the most careful trader gets into difficulties, and it is possible to get out of the fine if you have a 'reasonable excuse'. But it's better to identify the possible problems and do something about them. If you have received a liability notice, it's really important to file four returns on time and get rid of it. It's worth taking advice on the various ways available to make this easier.

ACTION POINT:
DO YOU HAVE DIFFICULTY FILING VAT RETURNS AND PAYING ON TIME?

A matter of interest

Tax relief on home loans is a distant memory. But if you run a company or a business, or if you buy property to rent out, it's possible to enjoy tax relief on interest paid. Although the terms of such 'business-related' loans may be different from a domestic mortgage, the tax relief for a top rate taxpayer can reduce the cost to half of what it would otherwise be. 50% of 8% is less than 100% of 6%! If the rates and terms are the same for two loans, tax relief is a pure advantage.

The same goes for paying off borrowings. If you want to reduce the cost of interest payments, look at the net cost rather than the gross - you might want to reduce 'private' borrowings even if the rate is lower before you pay off loans on which you get tax relief.

ACTION POINT:
REVIEW BORROWINGS TO SEE IF RELIEF CAN BE OBTAINED

Foreign exchanges

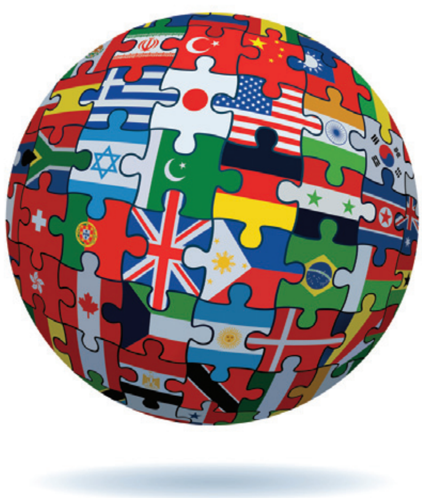
For many years, foreign domiciled people enjoyed a tax break in the UK on their foreign income and gains - if they left the money overseas, they didn't have to declare it here. Since 2008, people who have lived in the UK for 7 years out of the last 9 have a choice: pay tax here on your worldwide income and gains, or pay a flat-rate charge of £30,000 a year and forgo your tax-free allowances in the UK. The only exception is if your total amount of foreign income and gains is under £2,000. Short-term UK residents such as expats on a secondment of less than 7 years still enjoy the tax break.

In 2012/13, the £30,000 charge will go up to £50,000 for people who have been resident for 12 of the previous 14 tax years.

A rough-and-ready calculation shows you will be better off paying £30,000 if your overseas income is more than £75,000 and you pay tax at 40%, or £60,000 for a 50% taxpayer - of course, it's more complicated than that with different tax rates applying to income and gains, but that's a starting figure. However, many people with substantial foreign assets and connections may do the even easier calculation and decide it's cheaper to live somewhere else. The increase to £50,000 may push a few towards the exits.

Anyone who has been using the 'remittance basis' and has lived in the UK for 7 years should already have reviewed their plans; anyone who is approaching the 7 year limit should think about it as a matter of urgency.

ACTION POINT:
DO YOU CURRENTLY PAY TAX ON REMITTANCES OF FOREIGN INCOME?



Gains favoured

The recession may have turned CGT into a problem many people wish they had, but there are still lucky people sitting on unrealised gains that are exposed to tax at 18% or 28%. If the economy recovers - as we hope it will - investments bought now may be showing big gains in a few years.

A lower rate of 10% is available to people who dispose of their own businesses - there's a limit of £10m of gains over your lifetime. The conditions for this 'Entrepreneurs' Relief' are complicated and it's worth checking that you are entitled to it if you are hoping to benefit. Don't sell up in the expectation of 10% and be disappointed to find the tax is nearly two or three times as much.

Mr Osborne raised the CGT rate for higher-rate income tax payers on 22 June 2010. If you have a choice between receiving dividends and making capital gains – for example, if you are accumulating profits in your own company and are deciding whether to liquidate or to pay them out - it used to be clear that gains were more favourably taxed in every case; now the picture is more confused. A basic rate tax payer suffers 18% on gains and 20% on income (plus, perhaps, high levels of NIC). A 40% taxpayer suffers only 28% on gains, but the higher rate of tax on net dividend income is effectively only 25% (with no NIC), making gains slightly worse than dividends. An additional rate taxpayer has a clear preference for gains – the 50% rate, possibly with NIC as well, on income, in comparison to 28% on gains. The effective rate of additional rate income tax on a net dividend is 36.1%, which is closer to but still higher than 28%.

In spite of the attempt to level the playing field, it is likely that many people will still arrange to have their investment returns in the form of gains rather than income. HM Revenue & Customs are aware of this - there was a similar difference before 1988, and in 2010 they updated some old rules that let them charge people at income tax rates on what the taxpayers think are gains. If you are hoping to take advantage of the lower CGT rate, it's worth being sure that none of these anti-avoidance provisions can be applied to you.

ACTION POINT:
DO YOU KNOW HOW MUCH CGT YOU MIGHT PAY ON YOUR ASSETS?

Selling abroad?

In difficult times, it makes sense to look for new markets. If you are VAT-registered, new markets may come with new complications in the paperwork, and it's worth making sure that you are up to speed on the rules.

If you sell goods to business customers elsewhere in the EU, you are usually allowed to zero-rate the sale – you charge no VAT, but you can still recover any input tax on related costs. But you need to be able to show that the customer was registered and the goods left the country. HMRC have suffered from a large number of fraudulent claims in relation to EU trade – typically, but not exclusively, in relation to mobile phones and computer chips – and they are understandably suspicious if the papers are not in order.

If you buy goods from businesses elsewhere in the EU, you have to give them your VAT number to obtain the purchase free of foreign VAT, and then you account for UK VAT in Box 2 of your VAT return.

International purchases and sales of services are subject to different rules again – the result may be similar to the above, but the procedure and the detailed requirements are different.

If you are selling goods or services to businesses in the EU, you will need to complete an EC Sales List every quarter (or monthly, if you sell £70,000 of goods a quarter) giving the customers' VAT numbers and the value of sales. If you exceed higher limits for purchases or sales of goods, you will need to complete supplementary statistical declarations (intrastats).

Imports and exports are different again. Anyone putting their toes into a foreign market-place needs to be able to deal with a host of problems, and HMRC's requirements are probably not the least of them.

There's some general information on the HMRC website, but it's important to consider exactly what your business needs to do to comply with these rules.

ACTION POINTS:
DO YOU SELL ANY GOODS OR SERVICES TO CUSTOMERS ELSEWHERE IN THE EU? ARE YOUR PAPERS IN ORDER?

Currency roller-coaster

With currency values uncertain, anyone investing abroad needs a cool head and a strong constitution. It's worth being aware of the UK's chauvinistic tax rule, as well – all capital gains have to be worked out in sterling, using the rates ruling on the day you bought something and the day you sold it. That can make a big difference to the CGT position.

Suppose you bought a French ski chalet for €200,000 when the rate of exchange was €1.5 = £1. If you sell it for the same amount of euro when the rate has moved to €1.15/£1, you appear to have made no gain – particularly if you have used the proceeds to pay off a foreign mortgage. But HMRC will treat this as a purchase for £133,333 and a sale for £173,913, and they will want tax on that. The equivalent exchange loss that you made on the mortgage is not allowable for CGT.

The main thing you can do about this is to be aware of the problem before you make a sale – you may be able to find a way around the liability, or time the transactions to get a better result, as long as you know what's coming.

ACTION POINT:
DO YOU HAVE ASSETS ABROAD?

Longer holidays?

At the end of their term, Labour intended to end the favourable treatment of furnished holiday lettings (FHL) as a 'trade' rather than as property investment for tax purposes. The Coalition Government decided to tighten the rules rather than abolishing them. The old relief for FHL losses against other types of income was removed for the 2011/12 tax year, and for 2012/13 the conditions for FHL treatment are stricter. That means that a property will only be FHL if it is available for 50% longer – 210 days in a year – and actually let for 50% longer as well – 105 days in a year. The actual letting requirement can be averaged across a number of properties, but each must be available for the minimum period individually.

Anyone who has benefited from the advantageous treatment of FHL in the past should now review the changes to see if they are adversely affected. If an owner's properties all cease to qualify on the change of rules, it could still be possible to enjoy one CGT advantage – Entrepreneurs' Relief, charging a rate of only 10% on the gain – provided that the disposal is timed correctly.

ACTION POINT:
IF YOU HAVE ANY FHL, THINK ABOUT THE CHANGE OF TAX TREATMENT

Good company?

National Insurance is an extra tax on salaries and business profits, even if politicians won't use the 'T-word'. There is talk of aligning or even combining the two, but it doesn't seem likely to happen very quickly.

Sole traders and partnerships can reduce the impact of NIC by forming a company and paying dividends instead of salary - dividends are not NICable. This is a complex decision, which should not be taken on tax grounds alone - many other factors have to be considered. There is more paperwork and law around running a company than an unincorporated business, but the tax savings may outweigh that.

The rate of Corporation Tax on a company with small profits (up to £300,000 a year) is currently 20%. A sole trader making a profit of £50,000 in 2012/13 will pay about £13,172 in tax and NIC; someone running a small company with the same profit will only have to pay corporation tax of £8,502 (after paying the owner a salary equal to the NIC threshold of £7,490). If the whole of the company's profit is paid out as a dividend there will be another £630 in income tax to pay, but there is still a substantial saving which in many cases outweighs the extra compliance burdens.

ACTION POINT:
HAVE YOU CONSIDERED INCORPORATING YOUR BUSINESS?

Gimme a tax break

Contributions to some tax-favoured investments are capped for each fiscal year. The limit for Individual Savings Accounts (ISAs) is £10,680 in total, rising to £11,280 in April 2012. Up to half of this can be held in a cash ISA, or the whole can be invested in stocks and shares. There is no income tax or CGT on profits arising while the money is held in the ISA.

In 2011/12 you can put up to £500,000 into Enterprise Investment Scheme shares (with 30% relief and possible CGT deferral). This limit is going up to £1m from 6 April 2012. You can also put £200,000 into Venture Capital Trusts (with the same 30% income tax relief). The effect of the income tax relief is that £100,000 invested only costs £70,000. This won't turn a bad investment into a good one, but it will make a good one better and will reduce the risk involved in investing.

Of course, you need to take proper advice on where to put the money, as well as understanding how it will reduce your tax bill. If you are thinking of investing in one of these schemes, you may want to do so before 5 April to maximise the benefit.

ACTION POINTS:
DO YOU WANT TO TOP UP YOUR INVESTMENTS?

Keep it in the family

Where one spouse employs the other, it is necessary to be able to justify the level of income paid - if the salary appears to be too generous for the duties involved, HM Revenue & Customs have traditionally not allowed it to be an effective transfer for tax purposes.

By contrast, the National Minimum Wage (NMW) rules may require a minimum amount to be paid - unincorporated businesses are exempt in respect of family members living at home, but a company has to pay its employees the minimum rate. HMRC are responsible for the NMW as well as for PAYE on salaries, so they might even argue that more should be paid out to a spouse – but they don't normally take this line.

The problem is picking a level of pay that can be justified, makes sense for tax purposes, and doesn't create additional problems. Even if it's a deductible expense for the business, salary may create a liability to pay National Insurance Contributions and PAYE, which creates paperwork. Employer's NIC start when salary exceeds £144 per week and employee's NIC starts above £146pw (in 2012/13). If the 'employer' pays tax at 40% and the spouse has no other income, £144pw saves nearly £3,000 in tax in a year.

A higher salary - say £150pw - will still save tax for the payer, but there will only be NIC on the £6/£4 by which it exceeds the two thresholds. The recipient is also likely to have a basic rate income tax liability – so the tax saving becomes much smaller above those limits.

NIC-related benefits such as State Pension will be earned on pay above £107, which makes that level of pay very beneficial – no income tax or NIC liability, but a worthwhile reward in the form of a NIC credit. This has to be reported to HMRC under the PAYE system (for the entitlement to be recorded), so there is paperwork to complete even if there is no charge.

ACTION POINT:
REVIEW THE AMOUNT PAID TO FAMILY MEMBERS

Don't be late!

There have always been penalties for submitting your tax return or settling up after the due date. New, harsher rules have come in for most taxes from April 2011. They'll bite for the first time on income tax returns for the tax year 2010/11 – the ones due for submission and payment on 31 January 2012.

The old rules let you avoid a penalty if there was no tax to pay. If HMRC told you to file a return you had to do so, but if it showed nothing was due, it didn't have to be on time. They would send you a £100 penalty notice, but it would be cancelled after the return was filed.

Now, the £100 penalty will be charged regardless of outstanding tax. If HMRC don't ask for a return and you don't have any more tax to pay, you still don't have to send them anything – but if they send you a notice requiring a return, you need to submit it by 31 January or pay the penalty.

The penalties go up substantially if you are 3 or 6 months late, and there are surcharges for paying the tax late – in addition to interest. Some excuses will get you off, but don't expect sympathy from HMRC – they will surely be enforcing these charges without mercy as another way of raising revenue. Much better to know what you need to do and do it in good time.

ACTION POINT:
ARE YOU UP TO DATE WITH YOUR RETURNS AND PAYMENTS?

Credits crunched

Child Tax Credits (CTC) and Working Tax Credits (WTC) were one of Gordon Brown's flagship policies. Not surprisingly in a time of austerity, Mr Osborne cut back WTC support for childcare costs in 2011/12, and there will be further reductions to both WTC and CTC for 2012/13. The joint income level at which the basic CTC of £545 starts to be withdrawn, which fell from £50,000 to £40,000 in 2011, will drop again, and many people who have come to expect it will no longer qualify.

If you have claimed either of these credits in the past, it's worth looking at how the changes will affect you.

ACTION POINTS:
ARE YOU ENTITLED TO CTC/WTC?