

# DO IT BY 5 APRIL! YEAR-END TAX PLANNING

What can you do to save tax before 6 April 2009?

Here are some headline items which are covered in more detail below:

- Making the most of tax-efficient saving opportunities – a pension contribution can provide an instant return on your capital of 67%!
- Saving capital gains tax by: entrepreneurs relief
- Reducing inheritance tax on your estate.

This guide highlights a range of planning opportunities to consider before 6 April 2009. Please contact us to discuss the following:

## ***Tax efficient saving for the future***

Pension contributions made on or after 'A-Day' (6 April 2006) are no longer limited to a fraction of earnings. An individual may make unlimited contributions, and tax relief is available on contributions of up to the full amount of his relevant earnings or £235,000 (the annual allowance) if lower. To reduce your 2008/09 income tax liability, individuals must pay pension contributions by 5 April this tax year.

If instead of you paying pension contributions out of post- NI (National Insurance) income, the employer makes the pension contributions, the contributions will be free of NI (with a typical saving of 13.8%).

Are you saving enough for your retirement? Ask your pension provider for a pension forecast, and put together a forecast of your spending needs based on what you are spending now. Then you will be able to judge if you are saving enough.

Consider paying Stakeholder Pension contributions of up to £2,880 (net of 20% tax) for children, grandchildren, and others with low or no earnings aged under 75.

## ***Tax efficient investments***

The maximum contribution to an ISA for 2008/09 is £7,200 (or £3,600 for cash only ISAs). The investment must be made on or before 5 April 2009.

Consider the annual limits for Venture Capital Trust (£200,000 - 30% income tax relief) and Enterprise Investment Scheme (£400,000 (should increase to £500,000 (pending EU approval)) – 20% income tax relief) investments. The latter can also shelter capital gains (most useful where little or no taper relief was available on pre 6 April 2008 gains).

'Film Partnerships' (and similar arrangements for partnerships involved in green technology, R&D etc) can also be used to shelter exceptional profits or earnings, as well as capital gains.

## ***Husband and wife planning***

Consider transferring income-producing assets to a spouse not currently utilising their personal allowance, and/or lower rates of tax.

Consider transferring assets prior to sale to utilise each spouse's annual capital gains tax (£9,600) exemption. *See below re bed-and-breakfasting.*

## ***Timing of income***

To make the most of tax-free allowances (and lower rate tax bands) take steps to defer or accelerate income. Consider the impact on Children's Tax Credit. Possible actions include:

- closing a bank account in order to crystallise the receipt of interest;
- advancing or deferring a salary payment or a dividend from a family company (but paying a dividend before 6 April, is likely to advance the tax payments by a year);
- make a distribution from a discretionary trust;
- realising life insurance gains (it may be possible to avoid paying any tax by making a much smaller pension contribution in the same tax year).

## **Giving**

It is no longer necessary to make cash donations under the Gift Aid scheme by 5 April in order to obtain higher rate relief in 2008/09. You can elect that later donations made before filing your 2008/09 tax return, are treated as paid in 2008/09, provided you file your tax return by 31 January 2010.

Gifts of quoted shares, units in unit trusts, and real property should be made by 5 April 2009 in order to obtain income tax relief this year (there is no carry back facility). For a gift to be fully effective everything necessary to transfer ownership/title must have been done.

## **Capital Gains Tax**

Realise gains and losses (on shares and unit trusts) to take advantage of the annual exemption of £9,600 for 2008/09. If retaining the shares is a sound investment strategy, consider reacquiring them in a different capacity e.g. in an ISA, a pension scheme or by a spouse. Remember it is no longer tax-effective to sell on one day and buy back the next (*'bed-and-breakfasting'*) – but it is possible for the other spouse to repurchase on the same day, or to repurchase within an ISA, thereby minimising exposure to fluctuations in values. Otherwise, you must not repurchase until after the following thirty-day period has expired. *Care is now required, when bed and breakfasting shares to create losses, due to general anti-avoidance legislation – you may wish to seek advice before taking this route.*

## **Inheritance tax**

Consider making use of the £3,000 annual exemption, together with the same amount brought forward from last year if not already used. Remember that each spouse has an exempt amount of £3,000 per annum.

Consider making use of the exemption for normal gifts out of income.

Consider the use of the IHT 'nil rate band' (currently £312,000) by making gifts now. You will be able to see the benefit of these gifts to your family members and they will escape IHT if you survive seven years.

It is now possible to transfer the unused "nil-rate band" between spouses. This eliminates the need for nil rate discretionary trusts for many individuals. Wills containing arrangements to utilise the nil rate band on the first death should be reviewed.

There are a number of investment arrangements which can assist in reducing IHT. Some of these will achieve reductions within as little as two years – ask us for further details.

**Finally WILLS** – if you don't have will or your existing will is very out of date, you really ought to take some action now. Dying without a will can lead to delays in dealing with your estate and your wealth may not go to the people who you think deserve it.

**NB. References to husband, wife, spouse etc include members of Civil Partnerships.**

*This Note is intended to act only as a guide and cannot be fully comprehensive. Each business and/or individual should consider their own position and if necessary consult a professional advisor. Therefore Horwath Clark Whitehill LLP does not accept any liability for any action taken or not taken on the basis of this Note.*

## **To find out more please contact:**

Wendy O'Connor  
Tax Partner

[wendy.oconnor@pagekirk.co.uk](mailto:wendy.oconnor@pagekirk.co.uk)

Lesley Tooley  
Tax Partner

[lesley.tooley@pagekirk.co.uk](mailto:lesley.tooley@pagekirk.co.uk)

Amanda Simpson  
Tax Manager

[amanda.simpson@pagekirk.co.uk](mailto:amanda.simpson@pagekirk.co.uk)

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