



# Taxes Made Easy 2014/15

# Taxes made easy

clear and concise tax guide  
2014/15

Practical tax tips to guide you through the tax system and help you plan to minimise your liability.

Please use this guide to identify areas where you could take action, then contact us for advice and to discuss the most appropriate way forward.



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# A few essentials

## Introduction

In the UK the greater bulk of income tax which flows into the Exchequer does so by deduction at source. The tax is taken from income before it is paid to the taxpayer and most of this happens by way of Pay-As-You-Earn (PAYE). This collection system will no doubt be familiar to almost everyone who is in employment and also to those who receive pensions.

Most other income tax collected at source comes from deductions made by banks or building societies from interest paid to savers. Many of us, including children, the retired and working people, will have savings accounts of one sort or another and many might also have shares from which income arises in the form of dividends. These too are treated as having suffered income tax at source.

As these circumstances cover the overwhelming majority of individuals, more than 80% of the population will have little or no regular contact with HM Revenue and Customs (HMRC), the organisation that administers and regulates all taxes in the UK.

Over 10 million taxpayers have something more than just a regular income taxed under PAYE and interest on savings. Instead they might have income from their own business or receive rent from a property. Alternatively, it may

be that their income is significant enough to attract higher or additional rate tax so that the tax deducted at source on their savings income is insufficient. These taxpayers may be asked to complete a self assessment return each year and then they will have direct contact with HMRC.

### Practical Tip

If you are not asked to complete a tax return, it remains your responsibility to advise HMRC if there is a new source of untaxed income, a capital profit that could lead to a tax liability or you are subject to the high income child benefit charge. Please contact us for further advice if this affects you.

Income tax is not the only means by which the government relieves us of our hard earned cash. You may own assets such as a precious antique, a second home or shares. If such an asset is sold, the chances are that a profit will arise and this may give rise to a liability to capital gains tax.

Details of any capital gains may have to be included on the self assessment return.

Inheritance tax may be payable on the assets that you give to others in your lifetime or leave behind when you die. At one time very few individuals had to worry about this tax.

House price increases over the last two to three decades have changed this and many more estates have now become liable so you may need to consider some planning to minimise this tax.

Many of those in business have to understand the principles of Value Added Tax (VAT) because they will have to act as an unpaid collector of this tax. In addition, those who run their business through a limited company need to know about corporation tax which taxes a company's profits. Employing others in your business brings further obligations with recent changes to PAYE reporting with the introduction of Real Time Information (RTI) and the roll out of Pensions Auto-Enrolment. We consider these issues later in this guide.

### Practical Tip

Remember to keep all tax related documents such as interest statements, dividend vouchers, pay certificate form P60 etc. Place everything in a folder through the year as it is received. Then you can simply hand this to us when we need to prepare your self assessment return.

HMRC are increasingly emphasising the importance of good records. Failure to maintain adequate records may lead to inaccurate tax returns, which could result in penalties.

This guide is designed to provide you with a simple guide to all of these taxes from seven perspectives - that of the family; the employee; the person running their own business; the taxation of investments; property matters; disposals and capital gains tax and, finally, knowing that nothing is certain except death and taxes, the potential liability on your estate at death.

Please use the guide to help you identify planning opportunities, pitfalls to avoid and areas where you may need to take action and then contact us for further advice.

## Self assessment (SA) timetable

- Income tax and capital gains tax are both assessed for a tax year which runs from 6 April to the following 5 April.
- Shortly after 5 April - SA returns or a notice to complete a return are issued by HMRC.
- 31 October following - non-electronic returns need to be submitted to HMRC by this date.
- 31 January following - final date for submission of the return and all outstanding tax to be paid.
- There is an automatic penalty for late filing of the return of £100.

- Further penalties may be due if the filing of the return is significantly delayed. These may run into hundreds of pounds.

### Practical Tip

The full £100 penalty will always be due if your return is filed late even if there is no tax outstanding. It is therefore essential to submit the return on time either by 31 October (non-electronic) or otherwise by 31 January following the end of the tax year.



# Family matters

## Married couples

The phrase 'spouse' whenever used in this guide includes a registered civil partner.

Spouses are taxed as independent persons, each of whom is responsible for their own tax affairs. In principle all individuals are entitled to a basic personal allowance before any income tax whatsoever is paid. However, some individuals on high incomes may receive a reduced or even no personal allowance. This is explained further below.

The basic 2014/15 personal allowance is £10,000. The tax bands and rates shown opposite are applied to each spouse separately, so that each may have taxable income up to £41,865 before they start to pay higher rate tax. There is no aggregation of income, no sharing of the tax bands and the basic personal allowance may not be transferred from one spouse to the other.

### Losing the personal allowance

Where an individual's total income exceeds £100,000 the personal allowance is reduced by £1 for every £2 of income in excess of that limit. This means that an individual with total taxable income of £120,000 or more will not be entitled to any personal allowance.

### Tax Tip

If your income is in the range £100,000 - £120,000 the restriction in your personal allowance is the equivalent of a tax cost of 60%. You may want to consider making or increasing certain payments which are tax deductible to minimise this tax cost.

Examples include pension contributions (which may be subject to restrictions) and charitable donations.

### 2014/15 Income Tax Rates

£	%
0 - 2,880	10*
0 - 31,865	20**
31,866 - 150,000	40***
Over 150,000	45****

\* Only applicable to savings income and dividends. The 10% rate is not available if taxable non-savings income exceeds £2,880.

\*\* 10% on dividends

\*\*\* 32.5% on dividends

\*\*\*\* 37.5% on dividends

Other income taxed first, then savings income and finally dividends.

### Tax rates

For 2014/15 the basic, higher and additional rates of tax remain unchanged at 20%, 40% and 45% respectively.

A 10% rate band continues to be available for savings income in circumstances where an individual has taxable earned income of less than £2,880. The tax rates applicable to dividends remain the same.

### Higher allowances for those born before 6 April 1948

The basic personal allowance is £10,500 where the taxpayer is born before 6 April 1948 and £10,660 where born before 6 April 1938. These more generous allowances are reduced by £1 for every £2 that the taxpayer's income exceeds £27,000. It cannot be reduced below the basic personal allowance of £10,000 unless the taxpayer's income exceeds £100,000.

### Married couple's allowance

In 2014/15 a married couple's allowance is only available to those couples where at least one spouse is 80 or over by the last day of the tax year and is worth up to £816.50. The amount of the allowance is however dependent on income. This allowance is not covered further in this guide. Please do contact us if it is of interest to you.

## Minimising the tax bill

It follows from the basic rules set out above that tax is minimised if spouses equalise, as far as possible, their income so that all personal allowances are fully utilised and higher/additional rates of tax are minimised.

### Example

In 2014/15 Ian and Angela have savings income of £100,000 and no other income.

If this is split equally between them, the total tax bill for the couple is £18,678. If only one spouse has income of £100,000 and the other has nothing, the total tax bill leaps to £29,339 - an additional £10,661!

### Tax Tip

If you are feeling charitable, remember that a donation to charity under the Gift Aid scheme benefits from tax relief. It makes sense for a higher rate/additional rate taxpayer spouse to make such donations so that they can benefit from the extra tax relief.

Alternatively donations can be carried back to attract tax relief in the previous tax year.

## Jointly owned assets

Married couples will often own assets in some form of joint ownership. If they do not, then it may be advantageous for tax purposes for transfers to be made to ensure joint ownership.

This can have benefits for income tax, capital gains tax and even inheritance tax.

## Tax Planning

If you and your spouse are both involved in running a business, income can be equalised if you are equal partners or equal shareholders. Alternatively, if only one of you is involved, the other could be employed even if only to use up their personal allowance.

Where assets are owned in joint names any income is deemed to be shared equally between the spouses. If the actual ownership shares are unequal, income is still deemed to be split equally unless an election is made to split the income in the same proportion as the ownership of the asset.

This does not apply to shares in close companies (almost all small, private, family owned companies will be close companies) where income is always split in the same proportion as the shares are owned.

### Example

A buy to let property is owned three quarters by Helen and one quarter by her husband Mark. If no election is made the net rental income on which tax is payable will be split 50:50.

If an election is made the income will be split 75:25. A choice can be made according to which is the most desirable when other income of the spouses is taken into account.

## Capital gains tax

Independent taxation also applies to capital gains tax. Each spouse is entitled to take



advantage of the annual exemption of £11,000 before any capital gains tax has to be paid.

This is advantageous where assets are held jointly and then sold as each spouse can use their annual exemption to save tax.

The transfer of assets between spouses is neutral for capital gains tax. This is sometimes done shortly before assets are sold, to minimise tax. Advice should be sought before undertaking such transactions to ensure that all tax aspects have been considered.

Capital gains tax is payable on the amount of capital gains above the annual exemption at either 18% or 28%. Further detail on the operation of this tax is included in the disposals and capital gains tax section of this guide.

## Separation

The breakdown of a marriage will often involve the transfer of assets between spouses. The marriage continues until the divorce is legally finalised but, for transfers of assets to be

entirely free of a charge to capital gains tax, the transfer must be made before the end of the tax year in which the separation takes place.

Separation is deemed to happen when the couple cease to live together as man and wife - quite different to the date the divorce is final, which is often much later.

### Example

If a couple cease to live together on 30 April 2014, transfers of assets must generally be made between them by 5 April 2015 for capital gains tax to be avoided.

Conversely, for inheritance tax, transfers that take place before the divorce is final will continue to be exempt.

There is usually neither tax relief on maintenance payments made by one former spouse to another nor on any payments required by the statutory Child Maintenance Service.

## Children

It is often assumed that children are not taxpayers until they achieve some particular age.

In fact HMRC will tax a child just as readily as anyone else if the child has sufficient income to make them liable.

### Transferring income to children

Children have their own personal allowances and tax bands. Where their only income is, at best, a few pounds from a paper round or a Saturday job, there may be some scope for

transferring income producing assets to the children to use up their personal allowance.

However, such assets should not be provided by a parent, otherwise the income remains taxable on the parent, unless it does not exceed £100 (gross) each tax year.

### Tax Planning

There is nothing to stop you employing your children in the family business so as to take advantage of their personal allowance. There are age restrictions (with some exceptions the minimum age is generally 13 years old) and legal limitations as to the type and duration of the work. It is also essential that payment is only made for actual work carried out for the business and at a reasonable commercial rate.

### Children and capital gains

Children also have their own annual exemption for capital gains tax so that assets transferred to them which have a bias towards capital growth rather than income may prove to be more advantageous.

### Repayment claims

Where children have significant sources of income from which tax has been deducted, such as bank interest or trust income, they will almost certainly be entitled to a repayment. In such cases a repayment claim should be made.

### Child Trust Funds (CTFs)

These accounts were introduced to encourage tax efficient savings, with the government's help, to build a savings fund which the child can access once they reach 18.

The availability of new CTFs ceased from January 2011, as did government contributions to the accounts. Existing CTFs however continue to benefit from tax free investment growth. No withdrawals are possible until the child reaches age 18. However, the child's friends and family are able to contribute up to an overall total of £3,840 from 6 April 2014 and is further increased to £4,000 a year from 1 July 2014. It is possible to move the account to another provider and by April 2015 it is expected that it will be possible to transfer the investment to a Junior Individual Savings Account (ISA).



## Junior ISA

A Junior ISA is available for UK resident children under the age of 18 who do not have a CTF account. Junior ISAs are tax advantaged and have many features in common with existing ISAs.

They are available as cash or stocks and share based products and the investment is limited to £3,840 increased to £4,000 per year from 1 July 2014.

## Tax Planning

There are some other limited ways income can be transferred to children tax efficiently such as:

- National Savings Children's Bonds which are tax free.
- Friendly Societies offer 10 year minimum, tax exempt savings plans for children for up to £25 per month.

## High Income Child Benefit Charge

A charge arises on a taxpayer who has adjusted net income over £50,000 in a tax year where either they or their partner are in receipt of Child Benefit for the year. Where both partners have adjusted net income in excess of £50,000 the charge applies to the partner with the higher income.

The income tax charge applies at a rate of 1% of the full Child Benefit award for each £100 of income between £50,000 and £60,000. The charge on taxpayers with income above

£60,000 will be equal to the amount of Child Benefit paid.

Child Benefit claimants are able to elect not to receive Child Benefit if they or their partner do not wish to pay the charge.

Equalising income can help to reduce the charge for some families.

## Example

Phil and Jane have two children and receive £1,752 Child Benefit for 2013/14. Jane has little income. Phil's income is over £60,000 for the 2013/14 tax year. So the tax charge on Phil is £1,752.

For 2014/15 the Child Benefit for two children amounts to £1,770 per annum. Phil expects his adjusted net income to be £55,000. On this basis the tax charge will be £885. This is calculated as  $£1,770 \times 50\%$  ( $£55,000 - £50,000 = £5,000 / £100 \times 1\%$ ).

If Phil can reduce his income by a further £5,000 no charge would arise. This could be achieved by transferring investments to Jane or by making additional pension or Gift Aid payments.

## Same-sex couples

All the special rules for married couples, both those dealt with in this section and those covered in other sections of this guide apply equally to same-sex couples who have entered into a registered civil partnership or marriage.

## What about unmarried partners?

It still pays to equalise income as much as possible, as income tax will be minimised. However, transfers of assets may be liable to capital gains tax and, if substantial, could also lead to an inheritance tax liability. It is vital for unmarried couples to each make a Will if they wish to benefit from each other's estate at death.

## A word of warning

Transferring assets or interests in a business between husband and wife may attract the interest of HMRC especially where it is obvious that it has been done primarily for tax saving purposes. Transfer of ownership of an asset must be real and complete, with no right of return and no right to the income on the asset given up.

If a non-working spouse is given shares in an otherwise one-person, private company, HMRC may, in some circumstances, seek to tax the working spouse on all of the dividends under what is known as the 'settlements legislation'. So you may want to consider obtaining advice from us before entering into this type of arrangement.

## Checklist for Couples

Try to equalise your income.

Consider placing assets in joint names.

If you have children consider making use of their personal allowances.



# Working for others

Few avoid working for others at some time in their life and most will have encountered the PAYE system operated by employers to collect the income tax and national insurance contributions (NIC) due on wages and salaries.

## The tax code

Ensuring the right amount of tax is taken relies on a PAYE code, issued by HMRC and based on information given in a previous self assessment return or supplied by the employer. The employee, not the employer, is responsible for the accuracy of the code.

Code numbers try to reflect both an individual's tax allowances and reliefs and also any tax they may owe on employment benefits. For many employees things are simple. They will have a set salary or wage and only a basic personal allowance. Their code number will be 1000L and the right amount of tax should be paid under PAYE. However, for those who are provided with employment benefits the code number is generally adjusted to collect the tax due so that there are no nasty underpayment surprises. HMRC may also try to collect tax on untaxed income, higher rate tax on investment income and tax owing for an earlier year.

With so many complications and some guess work involved, getting the code exactly right can be difficult and the right amount of tax will not always be deducted.

## Tax Tip

If you are unsure about your code and are anxious not to end the tax year under or overpaid, then you should have it checked. Please talk to us.

## Benefits

The range of benefits available will vary significantly depending on the type of employment. Some attract no tax but even taxable benefits can be efficient as the benefit obtained by the individual can often outweigh the tax cost arising. In addition, for the individual (but not the employer) benefits generally do not attract NIC.

### Company cars

Employer provided cars, commonly known as company cars, remain a popular benefit and for some a real status symbol, despite continued increases in the tax charge they give rise to.

The charge on cars is calculated by multiplying the list price of the car by a percentage which depends on the CO<sub>2</sub> emissions (recorded on the Vehicle Registration Document) of the car. You then pay tax at 20, 40 or 45% on this charge depending on your overall tax position.

The table shows the percentages for 2014/15. For the majority of company car drivers the taxable benefit is 1% higher compared to 2013/14.

If the car has a diesel engine the charge is increased by 3% (except that it cannot exceed 35%).

## Example

Mark has an Audi A3 TDI (diesel) registered on 1 February 2013. It has an original list price of £20,155 and CO<sub>2</sub> emissions of, say 99 g/km. Mark had extras fitted to the car costing £1,000 (VAT inclusive). In 2014/15 the taxable benefit will be £3,173 ( $[(20,155 + 1,000) \times 15\%]$ ). If Mark is a higher rate taxpayer the tax due on this will be £1,269.

\* 12% from the table plus 3% diesel supplement.

### Fuel for private use

A separate charge applies where private fuel is provided by the employer for a company car. The charge is calculated by applying the same percentage figure used to calculate the company car benefit to a fixed figure which for 2014/15 is set at £21,700.

2014/15	
CO <sub>2</sub> emissions (g/km)	% of car's price taxed
0*	0
75 or below*	5
76 to 94*	11
95	12
100	13
105	14
110	15
115	16
120	17
125	18
130	19
135	20
140	21
145	22
150	23
155	24
160	25
165	26
170	27
175	28
180	29
185	30
190	31
195	32
200	33
205	34
210 and above	35

\* Applicable until 5 April 2015

## Tax Planning

The fuel benefit charge can be expensive. It may be cheaper for the employee to pay for all the fuel and to reclaim from the employer the cost of business miles driven in a company car based on a specific log of business journeys undertaken.

HMRC publish advisory fuel rates for company cars which are updated on a quarterly basis. See [www.hmrc.gov.uk/cars/fuel\\_company\\_cars.htm](http://www.hmrc.gov.uk/cars/fuel_company_cars.htm) for the latest position or contact us.

### Planning to change your car?

Significant changes to the car benefit rules are planned for 2015/16 and 2016/17 whereby the appropriate percentages of the list price subject to tax will increase by 2% per annum up to a maximum of 37% in both years.

Also from April 2015 the five year exemption for zero emission cars and the lower rate of 5% for ultra-low emission (1-75gm/km) cars will come to an end and two new bands will provide for a 5% rate for cars with CO<sub>2</sub> emissions of 0-50gm/km and a 9% band for cars with CO<sub>2</sub> emissions of 51-75gm/km. The rate will be 13% for cars with CO<sub>2</sub> emissions of between 76-94 gm/km, 14% for 95-99gm/km, etc.

The existing 3% diesel supplement will be removed from 2016/17.

### Medical insurance

The employee is taxed on the amount of the premium paid by the employer.

## Home and mobile phones

There is no benefit on the provision of a company mobile phone even where it is used privately. However, this is limited to one phone per employee.

Where home telephone bills are paid by the employer, the amount paid will be taxable. The employee may make a tax deduction claim for the cost of business calls only but not the line rental.

### Cheap or interest free loans

If loans made by the employer to an employee exceed £10,000 (£5,000 prior to 6 April 2014) at any point in a tax year, tax is chargeable on the difference between the interest paid and the interest due at an official rate - currently 3.25% (4% prior to 6 April 2014). An exception applies for certain qualifying loans - please contact us for information.

### Tax Tip

The limit on tax free loans doubled to £10,000 from April 2014. This is an attractive perk for many employees.



## Childcare costs

Childcare costs paid for by an employer are exempt from both income tax and NIC. This applies to a place in an employer operated nursery or where the employer pays for registered or approved childcare as long as the scheme meets certain requirements. In the latter case the exemption is limited to a maximum of up to £55 per week depending on when the employee first receives employer supported childcare and their tax position. Any excess amounts are subject to tax and NIC.

## New Tax-Free Childcare scheme

The scheme for employer supported childcare is expected to be replaced by a new Tax-Free Childcare scheme to be phased in from autumn 2015. The scheme will be available to families where all parents are working and meet a minimum income level with each earning less than £150,000 a year. Parents who are receiving support through Tax Credits or the Universal Credit will not be eligible.

Parents will need to register with the Government and open an online account with National Savings and Investments. The Government will then 'top up' payments into this account at a rate of 20p for every 80p that families pay in. The scheme is limited to £10,000 per child per year. The government's contribution being a maximum of £2,000.

## Pension Contributions

Contributions by an employer to a registered pension scheme are generally tax and NIC free for most employees. This may be far better than any other perk.

## Tax Tip

You may want to sacrifice some of your 'normal' salary to do this. Please talk to us to make sure your salary sacrifice scheme is effective.

## Expense payments

### Reimbursed expenses

Reimbursed expenses are taxable as a benefit but the employee can claim a deduction for those expenses incurred wholly, exclusively and necessarily for business purposes. The overall effect is usually neutral.

What happens is that at the end of each tax year the employer sends a summary, to HMRC, of all benefits provided on a form P11D for each employee. As well as the benefits covered earlier, this form will include all reimbursed expenses.

The employee can then make an expense claim to HMRC either on a self assessment return or by letter for any business expenses so that these are not taxed.

Often nothing is taxable, so employers can ask to be excluded from the expense reporting process if they apply to HMRC. This is known as a dispensation.

### Mileage claims

Many employers pay a standard rate of mileage to all employees who use their own cars for business journeys. HMRC set statutory rates for business mileage which are 45p for the first 10,000 miles in a tax year and 25p thereafter.

If the employee is paid for business miles at less than the statutory rates, tax relief is available on the difference. If, however, the employee is paid at more than these rates then the excess is taxable.

If you are paid less than the statutory rates to use your own car for business purposes remember to claim a deduction on your return or write to HMRC to make your claim.

## Example

In 2014/15 Michael travels 14,100 business miles in his own car and is paid 32p per mile by his employer.

Michael can claim tax relief on an additional amount of £1,013  $((10,000 \times 45p) + (4,100 \times 25p)) - (14,100 \times 32p)$ .

## Vans

Where employees are provided with a van and the only private use of this is to travel to and from work (including any incidental private use), then no taxable benefit should arise. If there is private use beyond this, there is a benefit of £3,090 for 2014/15 and an additional £581 if fuel is provided for private as well as business journeys. In order to avoid this charge, it is advisable to have a formal written policy, detailed mileage logs and make use of vehicle tracker records. These will support the limited private use of the van and may avoid problems with HMRC in the future.

# Running a business

Starting up a business of your own is a big step and not one to take lightly. The taxation of your business is only one of many commercial and legal aspects of starting a business that you will need to consider.



Preparation is the key and a proper business plan is one of the first things you should do. However, tax matters are our main concern here.

## Choosing a business structure

The alternative business structures are:

### Sole Trader

This is the simplest form of business structure since it can be established without legal formality.

The business of a sole trader is not distinguished from the proprietor's personal affairs. If the business incurs debts which are unpaid, the creditors can seek repayment from the sole trader personally.

### Partnership

A partnership is similar in nature to a sole trader but involves two or more people working together.

A written agreement is essential so that all partners are aware of the terms of the partnership. Again, the business and personal affairs of the partners are not legally separate.

Sole traders and partnerships are often referred to as unincorporated businesses and the individual owners as self-employed.

### Limited Company

A company is a legal entity in its own right, separate from the personal affairs of the owners and the directors.

A company provides protection from liability, which means that the creditors of the company cannot make a claim against the owners or the directors except in limited circumstances. Often this advantage is somewhat eroded because a bank, for example, may seek personal guarantees from the directors.

These potential advantages carry the downside of greater legal requirements and regulations that must be complied with.

### Limited Liability Partnerships (LLPs)

LLPs are a halfway house between partnerships and companies.

They are taxed in the same way as a partnership but are legally a corporate body. This again gives some protection to the owners from the partnership's creditors.

In this section we consider the differing tax treatments of the alternatives but you should choose which structure is right for you based on more than just the tax issues alone.

## The tax regime

### Unincorporated businesses

A new business should register with HMRC on commencing to trade. Income tax is paid on the profits of the business. The amount that the proprietor, or a partner in a partnership, draws out of the business (referred to as 'drawings') is irrelevant.

Profits are taxed on a current year basis as shown by the example, although a new business will be subject to special rules, which we will be pleased to explain to you.

#### Example

If the accounting period (or 'year') end is 31 March then, in the tax year 2014/15, the profits for the year ended 31 March 2015 will be taxed.

If the year end was 31 August then, in the tax year 2014/15, the profits for the year ended 31 August 2014 will be taxed.

#### Tax Tip

The choice of accounting date on a business start up can affect:

- how profits are taxed
- when tax is payable
- when losses are relieved.

So do contact us to discuss the options available for your circumstances.

### Working out profits

Profits are calculated using accepted accounting practices and crucially this means that profit is not necessarily simply receipts less payments. Instead it is income earned less expenses incurred. However see details of the optional cash basis for smaller unincorporated businesses.

Not all of the expenses that a business incurs are allowed to be deducted from income for tax purposes but most are. It is important that you keep proper and comprehensive business records so that relief may be claimed.

#### Tax Tip

Try to incur expenditure just before rather than just after the year end, as this will accelerate the tax relief.

Examples of the type of expenditure to consider bringing forward include building repairs and redecorating, advertising and marketing campaigns and expenditure on plant and machinery.

### Cash basis for smaller unincorporated businesses

An optional basis for calculating taxable profits has been introduced for small unincorporated businesses for 2013/14 onwards. If an owner of a business decides to use the cash basis, the business profits would be taxed on cash receipts less cash payments of allowable expenses subject to a number of tax adjustments.

The optional scheme requires an election by the business owner and is only available where the business receipts are less than the VAT registration threshold (or twice that for recipients of the new Universal Credit).

A bit more detail of the scheme:

- Cash receipts include all amounts received in connection with the business including those from the disposal of plant and machinery. The good news is that if a customer has not paid what is owed by the year end, the amount due is not taxable until next year.
- Allowable payments include paid expenses but these still need to meet the existing tax rule of being wholly and exclusively incurred for the purposes of the trade.
- Payments include most purchases of plant and machinery, when paid, rather than claiming capital allowances. The bad news is that if a supplier is not paid by the year end, the amount is not relieviable until next year.



- Interest payments are only allowed up to a limit of £500.
- Business losses may be carried forward to set against the profits of future years but not carried back or set off 'sideways' against other sources of income.

Do get in touch if you would like us to consider if this optional scheme is appropriate for you and your business.

## Capital allowances

When assets are purchased for the business, such as machinery, office equipment or motor vehicles, capital allowances are available. As with expenses, these are deducted from income to calculate taxable profit.

### Plant and machinery - Annual Investment Allowance (AIA)

The AIA gives a 100% write off on most types of plant and machinery costs, but not cars, of up to £500,000 per annum for the period 1/6 April 2014 to 31 December 2015. From 1 January 2016 the AIA is set to reduce to £25,000. Any costs over the AIA will attract an annual ongoing allowance of 8% or 18% depending upon the type of asset. Special rules apply to accounting periods straddling 1/6 April 2014 and 31 December 2015 when the amount of available AIA changes.

### Tax Tip

Clearly where full relief is not obtained in the initial period there will be further tax relief in subsequent years but maximising tax relief early has an important impact on tax cash flow.

Businesses are eligible for a 100% allowance, on certain energy efficient plant and low emission cars.

### Motor cars

The tax allowance on a car purchase depends on CO<sub>2</sub> emissions. For purchases from April 2013 cars with emissions of up to 130g/km attract an 18% allowance and those in excess of 130g/km are only eligible for an 8% allowance. For purchases prior to April 2013 (but after April 2009) the emissions limit was 160g/km for the 18% allowance.

## Paying the tax

The self-employed may have to pay tax and NIC 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.

## Employer obligations

As an employer you will have many responsibilities. These will include employment law requirements which are not covered in this guide and HMRC requirements to report pay and details of expenses and benefits. There are two developments which place a further burden on employers.

### Real Time Information

From April 2013 Real Time Information (RTI) became mandatory for broadly all employers.

Under RTI employers or their agents are required to make regular payroll submissions for each pay period during the year detailing payments and deductions made from employees generally on or before the date they pay the employees.

The RTI submission details payments made which include salary, overtime and statutory payments such as statutory maternity pay. It also details the income tax, national insurance contributions (NIC) due together with other deductions such as student loan repayments.

The PAYE and NIC on salaries is payable monthly (or quarterly where the amount due is less than £1,500 per month).

Following the introduction of RTI penalties are to be introduced for failing to make returns on time. These penalties will be applied from October 2014 and the first penalty notices will be issued in January 2015. Penalties also apply for failing to pay on time.

The employer must also report details of expenses and benefits provided to employees. More information on the valuation of benefits is contained in the Working for Others section of this guide.

### Pensions Auto Enrolment

The introduction of Pensions Auto Enrolment places new duties on employers to automatically enrol 'workers' into a work based pension scheme. Employers will have to comply with their obligations from a designated staging date (which varies by size of employer and PAYE reference).

The employer's duties include:

- assessing the types of workers in the business
- providing a qualifying automatic enrolment pension scheme
- automatically enrolling all 'eligible jobholders' into the scheme
- and paying employer contributions.

All employers will need to contribute at least 3% on the 'qualifying pensionable earnings' for eligible jobholders. However, to help employers adjust, compulsory contributions will be phased in, starting at 1% before eventually rising to 3%.

There will also be a total minimum contribution which will need to be paid by employees if the employer does not meet the total minimum contributions. If the employer only pays the employers' minimum contribution, employees' contributions will start at 1% of their salary, before eventually rising to 4%. An additional 1% in the form of tax relief will mean that there is a minimum 8% contribution rate.

### Practical Tip

All employers are going to have to plan for and implement Auto Enrolment. We can help you to deal with this process and advise you of your staging date.

## Companies

Unlike sole traders and partnerships who pay tax on profits only (and drawings are ignored), companies have two layers of tax. The first is tax payable by directors and shareholders on

money they take out of the company and the second is corporation tax which is due on the company's profits.

### Practical Tip

If you operate as a limited company, there is a legal separation between you as the owner and the company itself. This means you cannot use the company bank account as if it were your own! This requires a certain amount of discipline without which all kinds of legal and tax related difficulties can occur.

## Corporation Tax Rates

### Corporation Tax

	Year to 31.3.14	Year to 31.3.15
Small profits rate	20%	20%
Marginal rate	23.75%	21.25%
Full rate	23%	21%

The small profits rate normally applies where profits do not exceed £300,000. It also applies to the first £300,000 where overall profits are between £300,000 and £1,500,000.

The balance of the profits between £300,000 and £1,500,000 are taxed at the marginal rate.

The full rate applies to all profits where those profits are greater than £1,500,000.

The government plans to further reduce the full rate to 20% from 1 April 2015.

## Tax on 'drawings'

Directors of a company will normally be paid a salary and this is taxed under PAYE as for all employees. The cost of this, including the employer's NIC, is generally an allowable expense of the company. Shareholders of the company in contrast may be rewarded by the payment of dividends on their shares.

### Tax Tip

In most small companies the directors and shareholders are one and the same and so they can choose the most tax efficient way to pay themselves. Using dividends can result in savings in NIC. This requires planning. Please talk to us to decide the best options for you.

## Warning - close company loans to participators

A close company (which generally includes owner managed companies) is taxed in certain circumstances when it has made a loan or advance to individuals or their family members who have an interest or shares in the company (known as participators). The tax charge is 25% of the loan if it is outstanding nine months after the end of the accounting period. The tax charge is repaid to the company nine months after the end of the accounting period in which the loan is repaid.

Further rules prevent the avoidance of the charge by repaying the loan before the nine month date and then effectively withdrawing the same money shortly afterwards.

A '30 day rule' applies if at least £5,000 is repaid to the company and within 30 days new

loans or advances of at least £5,000 are made to the shareholder. The old loan is effectively treated as if it has not been repaid. A further rule stops the tax charge being avoided by waiting 31 days before the company advances further funds to the shareholder. This is a complex area so please do get in touch if this is an issue for you and your company.

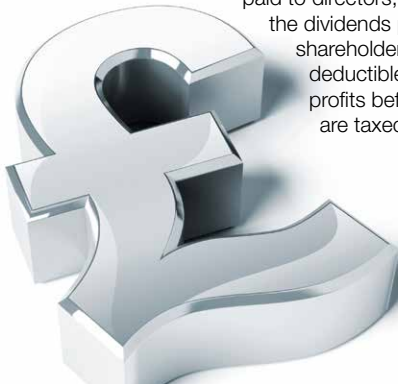
### Planning Tip

Ensure that sufficient salary and dividends are drawn from the business to prevent these charges arising unnecessarily on an overdrawn director's current account. We can also ensure that overdrawn accounts are cleared properly. Please contact us if you would like to discuss the right options for you and your business.

### Tax on profits

The profits of a limited company are calculated in a similar way as for unincorporated businesses and the same rules with regard to expenses and capital allowances generally apply. Remember though that the salaries

paid to directors, but not the dividends paid to shareholders, are deductible from the profits before they are taxed.



### Tax Planning

In recent years companies have become more popular as they have usually resulted in less tax being paid overall. Tax rate changes year on year mean that this will not always necessarily remain the case. This issue is complex as the comparison calculations have to take into account current and future government proposals on income tax and NIC rates. Do get in touch if you would like us to review your particular circumstances.

### Payment of tax

Corporation tax is usually payable nine months and one day after the year end, so the choice of accounting date has no tax consequence.

### Practical Tip

HMRC issue toolkits on various tax topics to help taxpayers and their agents comply with tax law. One of the main areas of non compliance identified by HMRC is poor record keeping and this applies to all types of business. If you would like guidance on what records to keep please get in touch.

### Income shifting

Over recent years, many families have been attracted by the savings that can be made by combining small salaries and large dividends. The savings could be increased by introducing a non-working family member into the business as a shareholder or co-owner, to use up their personal allowance and lower rates of tax.

Care needs to be taken as rules aimed at counteracting this in the 'settlements legislation' could be used to challenge certain arrangements. If you have any questions or concerns, please do not hesitate to contact us.

### Value Added Tax (VAT) and your business

VAT is a tax ultimately paid by the final consumer and businesses act as the collectors of the tax. There are heavy fines for failing to operate the system properly.

### What does VAT apply to?

VAT is chargeable on the supply of goods and services in the UK when made by a business that is required to register for VAT.

A registered business must charge VAT on its sales which is known as output VAT. There are currently three rates of VAT which can be payable on what are known as taxable supplies. These are the standard rate of 20%, the reduced rate of 5% and the zero rate.

The zero rate applies where the supply is deemed to be subject to VAT but the output VAT is charged at 0%, meaning that no VAT is actually payable.

However, a business also pays VAT on the goods and services it buys. This is known as input tax.

If the output tax exceeds the input tax, then a payment of the difference has to be made to HMRC. This calculation is normally done quarterly. If input tax exceeds output tax a repayment of VAT will be made.



This calculation is also done quarterly except that if repayments occur regularly this can be done monthly. Regular repayments would perhaps apply where a business generally makes zero rated supplies.

### Supplies

Certain supplies of goods and services are not subject to VAT at all and are known as exempt supplies. A business that makes only exempt supplies cannot register for VAT and will be unable to reclaim any input tax.

### Tax Tip

When you first register for VAT you can reclaim input tax on goods purchased up to four years prior to registration provided they are still held when registration takes place. VAT on services supplied in the six months prior to registration may also be reclaimed.

As there are three rates which can be applicable to taxable supplies, standard, reduced or zero rated, it is important to identify the type of supplies correctly and apply the correct percentage of VAT.

Some input VAT is not reclaimable by a VAT registered business. Two common examples are VAT incurred on entertaining UK business customers and VAT on the purchase of a car.

### Do I need to register?

A business must register if its taxable supplies exceed an annual figure, currently £81,000. If taxable supplies are less than this a business may still register voluntarily. So, for example, if

the business makes only zero rated sales, it can still register and reclaim the input tax suffered.

VAT can affect competition. A plumber, for example, who sells only to the general public, will be at a disadvantage if he has to register for VAT.

He may have to charge up to 20% more than a plumber who is not registered to earn the same profit.

On the other hand, if the same plumber only works for other VAT registered businesses, such as building companies, then it will not matter whether he is registered because the customer will be able to recover the VAT that is charged.

Indeed, in general, a business that always sells to other VAT registered businesses will normally register, even if below the annual limit, because then it can reclaim VAT on purchases and expenses.

This will improve profit and can be especially relevant for new businesses because there are often high initial set up costs that carry VAT.

On the other hand, registration comes at the cost of having to meet onerous record keeping requirements, a need to submit online VAT returns and pay online and on time. As well as a fundamental need to get it right!

Failure on any of these points exposes the business to penalties which, in some cases, can be substantial.

### Tax Planning

You should consider carefully whether to register voluntarily. If the VAT at stake is relatively small the responsibilities of registering may outweigh the benefit.

### Practical Tip

There are various VAT schemes designed to reduce administration and/or improve cash flow for the smaller business so do contact us for further information.



# Tax and your investments

Setting aside income in the form of savings is important for us all, to provide for the unexpected or to build up a nest egg that we can enjoy in retirement. Given that the earnings from which our savings come have already been taxed, people often object to the fact that any return they enjoy on their investments will usually be taxed again.

In this section we consider what are the most tax efficient investments to make.

## Pensions

Pensions are one of the most tax efficient forms of saving. A higher rate taxpayer can contribute £100 to a registered pension fund at a cost of only £60 and investment income and capital gains will accrue within the scheme largely tax free. For additional rate taxpayers the savings are even higher with a £100 contribution effectively costing £55.

An individual is entitled to tax relief on personal contributions in any given tax year up to the higher of 100% of earned income or £3,600 (gross).

The contributions are paid net of basic rate tax and the pension provider will then recover that basic rate tax from HMRC. Higher and additional rate relief, if appropriate, can be claimed from HMRC. Contributions in excess of the individual's limit can be made into a scheme but the excess will not attract tax relief.

An employer may make contributions to a scheme and a deduction from profits may be available to the employer.

As these reliefs are generous, there are controls which serve to limit high levels of contribution. These are complex but, put simply, they may give rise to a tax charge if annual contributions exceed £40,000 for 2014/15 (previously £50,000) or if the value of the fund when benefits are taken is greater than a lifetime allowance which, for 2014/15, is £1.25 million (previously £1.5 million).

Various options are available on and throughout retirement with regard to taking pension entitlement. The most common option is to take part of the fund, normally 25% as a tax free lump sum. The balance is then used to buy a taxable life annuity or to use an income drawdown facility.

### Planning Tip

The Government plans to bring even greater flexibility into the pension system from April 2015. In effect an individual will be able to choose what they want to do with their pension fund.

Getting the right advice at the point of retirement will be even more important.

## Tax free savings

### Individual Savings Accounts (ISAs)

ISAs are free of income tax and capital gains tax. There are maximum investment limits which apply for each tax year but, over several years, large investments can be built up. From 1 July 2014 ISAs are reformed into a simpler product, the New ISA (NISA) and all ISAs will become NISAs. Savers will be able to subscribe the full amount into a cash NISA if they choose to. They will also be able to transfer amounts between stocks and shares NISAs and cash NISAs.



## Individual Savings Accounts

		From 6 April 2014 to 30 June 2014	From 1 July 2014 to 5 April 2015
Overall investment limit		£11,880	£15,000*
Comprising	- cash up to	£5,940 max	Not applicable
	- balance in stocks and shares	Overall £11,880 max	Not applicable

\*Special rules apply if investments are made before 1 July 2014 as investments cannot in 2014/15 exceed £15,000 in total.

### Other tax efficient investments

The following investments work in varying ways. You should consider your needs in detail before entering into any commitments.

### National Savings and Investment (NS&I) Premium bonds

Premium bonds are tax free and you could win £1 million!

However, the annual rate of return is a lottery. The Premium bonds investment limit from 1 June 2014 is £40,000; and will increase again to £50,000 during 2015/16. The more you invest the more frequently you are likely to win, the smaller prizes at least. However, there is no guarantee of a steady rate of return.

## Practical Tip

Interest paid to individuals by banks and building societies will have tax deducted at 20%. If you do not pay tax you can sign a form to have the interest paid gross. If you have suffered tax but are not liable for it, you can make a repayment claim.

### Single premium insurance bonds

These provide a 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 2014/15. A capital gains tax (CGT) exemption may be given on sales of EIS shares held for at least three years. If the gain on the sale of any chargeable asset (eg quoted shares, second homes, etc) is reinvested in EIS shares, the gain on the disposal can be deferred.

## Tax Planning

It is also possible to obtain income tax relief in the previous tax year for qualifying purchases. Shares acquired up to the annual limit for the previous year at any time in the current tax year may be carried back for tax relief. This may be beneficial where tax relief would otherwise not be obtained due to a low current tax year liability.

### Venture Capital Trusts (VCT)

These bodies 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)

A more recent addition to the available schemes is SEIS. The tax breaks for the investor are:

- income tax relief at 50% in respect of qualifying SEIS shares up to an annual maximum investment (in all SEIS companies) of £100,000
- a CGT exemption where SEIS shares are sold more than three years after they are issued (as for EIS)
- a further CGT exemption of 50% where an individual makes a capital gain in 2014/15 and reinvests the gain in qualifying SEIS shares before 6 April 2015.

There are significant restrictions on the company including:

- the maximum amount which can be raised by a company through SEIS is £150,000 and this is an overall total not an annual limit
- the gross assets of the company must not exceed £200,000 immediately before the shares are issued
- the issuing company must have less than the equivalent of 25 full time employees immediately before the shares are issued
- the company must exist to carry on a new qualifying trade.

In addition, there are copious anti-avoidance rules which are largely drawn from the EIS.

# Property matters

Direct investment in residential property has always been a popular form of investment.

## Buy to let

The UK property market, whilst cyclical, has proved over the long-term to be a successful investment. This has resulted in a massive expansion in the buy to let sector.

Traditionally, buy to let involves investing in property with the expectation of capital growth with the rental income from tenants covering the mortgage costs and any outgoings. However, the gross return from buy to let properties, the rent less expenses, can change. Investors also need to take a view on the likelihood of capital appreciation exceeding inflation. Investors should take a long-term view and choose properties with care.

### Practical Tip

When choosing between investments always consider the differing levels of risk and your requirements for income and capital in both the short and long term. An investment strategy based purely on saving tax is not appropriate.

### Which property?

Investing in a buy to let property is not the same as buying your own home. You may wish to get

an agent to advise you of the local market for rented property. An agent will also be able to advise you of the standard of decoration and furnishings which are expected to get a quick let.

Letting property can be very time consuming and inconvenient. Tenants will expect a quick solution if the central heating breaks down over the bank holiday weekend! Do not cut corners - a correctly drawn up tenancy agreement will ensure the legal position is clear.

### Tax on rental income

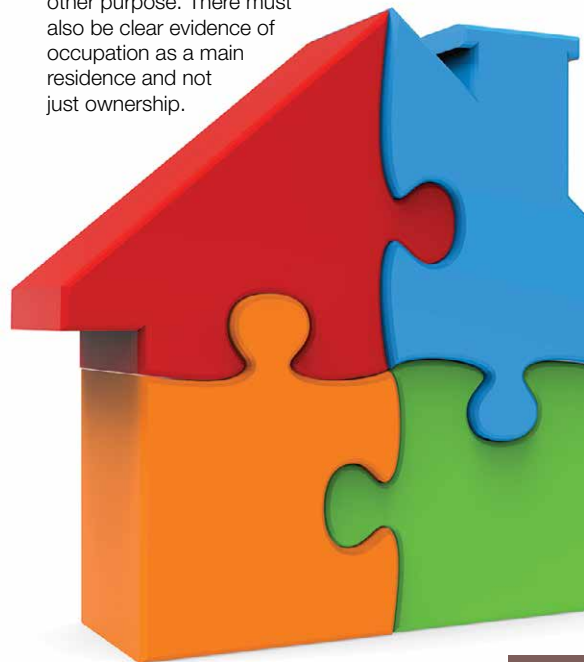
Income tax will be payable on the rents received after deducting allowable expenses. Allowable expenses include mortgage interest, repairs, agent's letting fees and an allowance for furnishings where the property qualifies as 'furnished'.

### Disposal

Where property is disposed of capital gains tax will generally be payable. This is payable on the difference between the sale proceeds and the original cost. Where property has been improved then these capital costs may be available to reduce the value of the gain. The CGT annual exemption results in the first £11,000 of gains, for 2014/15, being tax free. CGT is payable at 18% or 28% on gains depending on the level of your income. This is further explained in the next chapter.

## Main residence

An individual's or married couple's only or main residence is generally exempt from CGT. The exemption extends to grounds of up to half a hectare provided this is not used for any other purpose. There must also be clear evidence of occupation as a main residence and not just ownership.



## Tax Planning

Larger grounds may also be exempt, as can the sale of part of the garden or grounds for development. However, professional advice is recommended to plan for the best outcome.

Subject to exceptions, periods of absence are chargeable but, if the main residence was let during absences, as a result of which a charge arises, a 'letting relief' may apply to reduce the chargeable gain.

### More than one residence

Where an individual (or married couple) have two or more residences, only one residence at

any one time can be treated as the main home for exemption. This is done by an election. Provided a particular residence has been the main home at some time, then the last 18 months of ownership will always be exempt. This applies even if another residence has now become the main home during this time.

### Example

Joe has a house in Luton which is his principal private residence and which he has owned for eight years. Fed up with commuting he buys a flat in central London and elects for this to be his main residence. Exactly five years later he sells his home in Luton.

The Luton home is exempt for the first eight years whilst he was living in it and for the last 18 months because, even though he had another home which was his main residence during this time, the last 18 months is always exempt provided the home in question qualified as the main residence at some point.

9.5/13 of the gain on the Luton home will be exempt from capital gains tax. Upon the eventual sale of the flat the whole of that gain will also be exempt.

The main residence exemption can be complex and often causes a good deal of misunderstanding. Please contact us for further advice before making transactions in property.

## Inheritance tax (IHT)

The general growth in house prices over the last three decades, in particular, has caused real IHT worries. This is because retaining the family home in the estate when it is often the largest asset could result in an IHT liability of up to 40%. At the same time, finding a way to deal with it efficiently for IHT is difficult because individuals need a place to live.

There have been many schemes devised to solve the problem and HMRC have successfully tackled many of these.

It may still be possible to plan to mitigate some of the effect of the value of the family home particularly by careful planning using Wills.

An important prerequisite of such arrangements is that the property, if occupied by spouses or civil partners, should be owned jointly in such a way that there is no automatic transfer to the survivor on the first death. This means that each spouse, or civil partner, has a clearly defined legal interest in the property which can be left according to their Will and does not automatically fall into the ownership of the survivor.

The legal systems in the legal jurisdictions in the UK achieve this in technically different ways but each allows for this approach. Please contact us if you need further information.



# Disposals and capital gains tax

## Introduction

Making the most of your investments requires some understanding of capital gains tax (CGT). CGT arises on the sale of most assets and, subject to various reliefs and exemptions, is payable on the difference between the sale proceeds and the original cost. The CGT annual exemption results in the first £11,000 of gains, for 2014/15, being tax free.

CGT is payable at 18% where 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 (£31,865). CGT payable at 28% applies to gains or any parts of gains above this limit. These rates do not apply to gains eligible for Entrepreneurs' Relief. Such gains remain chargeable at 10%.

Certain other CGT reliefs allow chargeable gains to be deferred for a period of time such as gains deferred under the Enterprise Investment Scheme.

In working out the CGT due, taxpayers will be able to deduct losses and the annual exemption in a way which minimises the tax due.

Some assets are exempt from CGT such as motor cars (including classic cars), personal

goods such as jewellery or antiques sold for less than £6,000, UK government bonds and, crucially, your only or main home.

Where a gain is chargeable, there are a number of reliefs which could be considered mainly in relation to business assets. Such reliefs are mainly used to defer tax until a later date rather than reduce the gain permanently. Entrepreneurs' Relief is the exception.

## Entrepreneurs' Relief

Qualifying gains are taxed at a 10% rate of tax. The amount of the gains that can qualify for relief is currently £10 million.

Qualifying business disposals include:

- qualifying shareholdings
- the whole or part of an unincorporated business
- the disposal of assets on cessation of a business.

There also needs to be a qualifying period of ownership of generally one year up to the disposal.

Where an individual makes a qualifying business disposal, relief may also be available on an 'associated disposal'.

An 'associated disposal' is a disposal of an asset:

- used in a qualifying company or group of companies of the individual or
- used in a partnership, where the individual is a partner.

The 'associated disposal' must be part of the withdrawal of the individual from participation in the business and the available relief may be diluted due to various restrictions.

Trustees may benefit from the relief but only in very limited circumstances.

## Tax Planning

Specific detailed conditions apply for each type of qualifying business disposal and any associated disposal.

It is essential, to maximise the relief, that various conditions are met over a period of time prior to any such disposals, so please contact us if this is likely to affect you in the future.

# Preserving the inheritance

Inheritance tax (IHT) has some unique features and it is easy to collect because the authorities meet with least resistance. However it is relatively easy for wealthy taxpayers to at least minimise it, if not avoid it altogether, and consequently IHT is sometimes referred to as a voluntary tax.

Nonetheless, planning to minimise IHT is something that many put off until it is too late and early attention to this tax is almost always worthwhile.

The threshold for IHT (also called the nil rate band) is currently frozen at £325,000 until 6 April 2018. Many estates fall within the charge to IHT and even if your assets are worth less than this you should consider making a Will so that you choose who gets your assets after your death.

## Key features:

- 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
- some lifetime gifts are treated as 'potentially exempt transfers' (PETs). So long as the donor lives for at least seven years after

making the PET there will be no possibility of an IHT charge whatever the size of the gift

- there are numerous exemptions and reliefs.

## So what's the problem?

IHT is still a problem because:

- many are simply not in a position to make substantial lifetime gifts because it will leave them with insufficient capital to live on. As a consequence there is likely to be significant value retained in estates on death.
- although the average price of a house in the UK is currently below £325,000, many individuals do have a property which exceeds the average price and this means that the house alone will use up the bulk of the nil rate band and any excess remaining assets, such as investments and cash reserves, may be charged to IHT at 40%.

It is important therefore to consider ways of reducing any potential IHT liability.

## Mitigating the liability

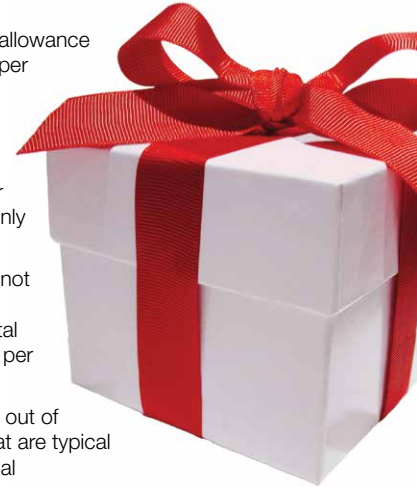
Do not waste your exemptions. Regularly using IHT exemptions will build up funds outside of the estate without incurring an IHT liability.

A husband and wife can each take advantage of the exemptions, the main ones being:

- an annual allowance of £3,000 per donor per year. This can be carried forward for one year only if unused
- small gifts not exceeding £250 in total per donee per tax year
- gifts made out of income that are typical and habitual
- gifts made in consideration of marriage up to £5,000 if made by a parent, £2,500 by grandparents and £1,000 by others
- gifts to charities whether made during lifetime or on death
- gifts between spouses and registered civil partners, whether made during lifetime or on death.

## Planning in lifetime

If possible you should make absolute gifts in lifetime. A gift to an individual will be a PET so there will be no liability if the donor survives



seven years. Even if the donor fails to survive for all of that period there will be a tax saving because the charge which will arise on the PET will be based on the value of the asset when it was originally gifted and not on the value at the date of death. If the value of the gift is below the threshold there will be no charge. If any tax is due it may be reduced to reflect the actual period between the dates of the gift and death.

## Tax Planning

Each spouse/civil partner can take advantage of the IHT nil rate band. Furthermore, gifts between them are exempt. Therefore it pays to use this exemption to broadly equalise estates so that both partners can make full use of exemptions and the nil rate band.

Remember that you cannot continue to benefit in any way from the asset gifted because this will render the gift ineffective for IHT purposes. You cannot, for example, give away your home to your children but continue to live in it rent free.

### Use available reliefs

Important reliefs of up to 100% are available on business assets such as shares in a family trading company or on agricultural property. It is important that these reliefs are utilised because once the asset concerned is sold the relief will be lost. They can only be used in connection with transfers that are chargeable to IHT.

In lifetime it may be worth considering transfers of such assets into trusts for members of the family.

On death such assets should not automatically be left to the surviving spouse because that transfer will be exempt and, if the survivor

subsequently sells the asset, the relief will have been wasted.

### Consider using trusts

Trusts can provide a way of reducing IHT liabilities not just for the donor but also for the donee. The rules are complex but significant tax savings can be achieved with careful planning. In particular, trusts can be an effective way of using important reliefs on businesses and agricultural properties.

### Use the nil rate band on death

On death, assuming the nil rate band has not already been utilised in the last seven years, it pays to ensure that it is not wasted. In recent times the rules have been altered to allow any unused nil rate band on the death of the first spouse to be transferred to the estate of the surviving spouse.

## Example

Tom died leaving the whole of his estate of £800,000 to his wife Pru. A few years later Pru died leaving her whole estate of £900,000 to her children.

Under the current rules, the portion of any nil rate band unused on the death of Tom will be allowable against Pru's estate. In this case as Tom's estate was left to Pru, none of his nil band was utilised, so 100% is available. This is in addition to Pru's own nil rate band. Using the current rates the IHT payable on Pru's death is based on £250,000 (£900,000 - [£325,000 x 2]).



Whilst the rules help many married couples, better planning could completely eliminate the IHT bill.

### Discretionary Will trust

Couples with modest estates find it hard to leave the nil rate band to children in their Will since that may leave the surviving partner short of funds. This can be overcome by the use of Discretionary Will trusts.

Put very simply, the Will leaves an amount equal to the nil rate band into a discretionary trust and the remainder can pass to the surviving spouse.

There will be no IHT payable on the death of the first spouse. The trustees will be given powers to pay income or capital to the surviving partner from the trust in the event that funds are needed.



On the death of the surviving partner this discretionary trust is outside of their estate and any assets owned in the surviving parties own right will attract the nil rate band.

### Tax Planning

Using trusts can provide an effective means of removing assets from an estate but still allow flexibility in their ultimate destination and allow the donor to retain some control.

Some trusts are quite tax efficient but recent changes have somewhat limited this effectiveness. Contact us for more advice on this area.

### Make a Will

If you die without a Will, the intestacy provisions will apply and may result in your estate being distributed in a way you would not have chosen. Keep your Will up-to-date to reflect changes in the family situation. In particular, Wills need to be reviewed and amended as necessary on marriage or on divorce. The precise position depends on whether English or Scots law applies.

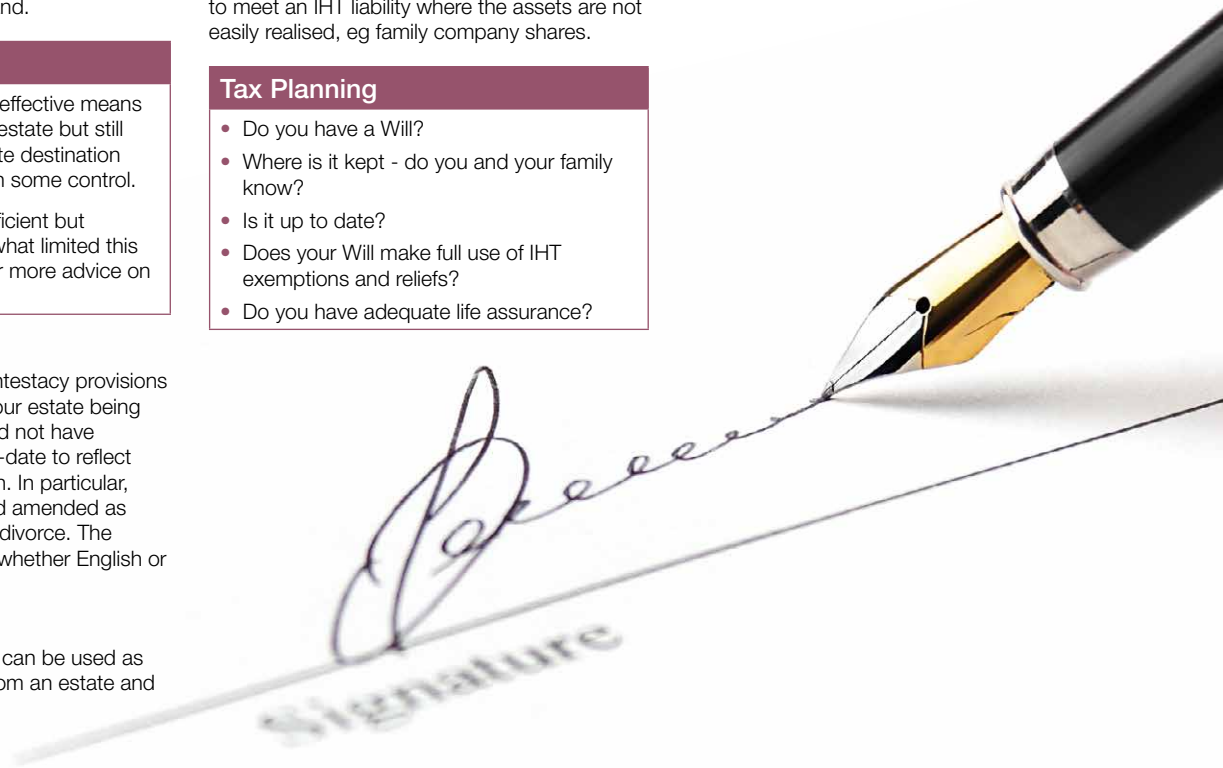
### Use life assurance

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 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 Planning

- 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?



*This guide is published for the information of clients. It provides only an overview of the regulations in force at the date of publication, and no action should be taken without seeking professional advice. Therefore no responsibility for loss occasioned by any person acting or refraining from action as a result of the material contained in this guide can be accepted by the authors or the firm.*

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