

Tax planning before the year end

The December 2009 Pre-Budget Report announced a series of measures which could have an impact on your tax and financial planning ahead of the year end. With 5 April fast approaching, it is important to ensure that you make the most of the planning strategies available to you.

Here we consider some key planning strategies in the light of changes announced in the Pre-Budget Report.



Pension planning strategies

The UK pension system is facing a number of significant changes, including plans to restrict tax relief on pension contributions, and the introduction of anti-forestalling legislation to prevent individuals from circumventing these restrictions.

Tax relief

Saving into a personal or company pension scheme allows you to enjoy tax breaks on your pension savings. There are tax reliefs as you invest together with a tax-free regime for your savings. Your employer may also be able to contribute (and obtain tax relief).

Pension contributions based on 2009/10 earnings must be paid by 5 April 2010. Tax relief is available on annual contributions limited to the greater of £3,600 (gross) or the amount of the UK relevant earnings, but subject also to the annual allowance (currently £245,000), and special annual allowance for those with annual income over £130,000 (see below).

New relief restrictions

Following proposals to restrict tax relief on pension contributions from 6 April 2011 for those with incomes of £150,000 and over, the Pre-Budget Report confirmed that the income definition for this threshold will include the value of employer pension contributions.

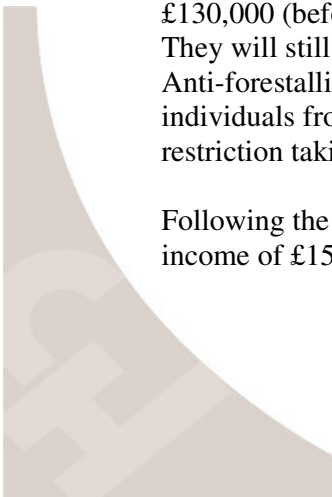
This will be subject to an income floor, so that tax relief for those with incomes below £130,000 (before the inclusion of employer pension contributions) will not be restricted.

They will still be subject to the existing annual and lifetime allowances.

Anti-forestalling legislation has been introduced for 2009/10 and 2010/11 to prevent individuals from making pension savings in excess of their normal regular pattern, ahead of the restriction taking effect.

Following the Pre-Budget Report, there are now effectively two sets of rules. For those with income of £150,000 or more in the year (or either of the previous two years), typically the

E-mail: help@clarkhowes.com
www.clarkhowes.com



amount which can be invested in pensions is capped at the pattern of investment already set at 22 April 2009.

For those with income of between £130,000 and £150,000 or more in the year (or either of the previous two years), typically the amount which can be invested in pensions is capped at the pattern of investment already set at 9 December 2009.

Those with regular pension savings may be able to invest at those levels and obtain tax relief at 40% this year, perhaps with scope to increase the level of investment to £20,000 per annum. Those paying irregular premiums may invest up to the greater of their average pension savings in 2006/07, 2007/08 and 2008/09 or £20,000, up to a maximum of £30,000. Note that the rules applying for 2009/10 and 2010/11 may also mean that a tax charge can arise for employees on employer pension contributions.

We can advise on your retirement planning needs. Please talk to us before taking action.

Company vehicles

While the company car remains a valuable part of the remuneration package for many, tax and national insurance costs may mean that you need to consider whether your current arrangement represents the most tax-efficient option.

The company car or van benefit is subject to a Class 1A national insurance charge of 12.8% payable by the employer. There is also a fuel benefit charge where fuel for private use is provided with the car. The rules also apply to employer provided cars and vans.

The Pre-Budget Report announced a number of proposed changes to the rules, with new incentives for environmentally friendly vehicles. This includes a new 0% band applying to company cars propelled solely by electricity, starting from 6 April 2010 and effective for five years. From the same date, and also applying for five years, there is a reduction to nil of the flat rate charge on company vans propelled solely by electricity. The new bands apply for both income tax (employees) and national insurance contributions (NICs) (employers).

The Chancellor also announced a 100% first year capital allowance for electric vans, allowable for business expenditure on new, unused electric vans incurred on or after 1 April 2010 (corporation tax) or 6 April 2010 (income tax). This is subject to State Aid approval.

Meanwhile the fuel benefit multiplier, which governs the tax paid by employees and the NICs paid by employers where free private fuel is provided, will be increased from 6 April 2010 to £18,000 (currently £16,900). Where fuel is provided for private travel in company vans the flat rate charge will be increased from the same date to £550.

In addition, the graduated table of company car tax bands will be extended down to a new

10% band (for cars with CO₂ emissions up to 99g/km) and all thresholds moved down by 5g/km with effect from 6 April 2012.

Now may be a good time to review your company car policy, and to determine whether it could be more beneficial to pay employees for business mileage in their own vehicles, at the statutory mileage rates. We can help you to decide on the best course of action for your business.

Inheritance tax strategies

The Pre-Budget Report announced that the inheritance tax (IHT) allowance will not increase in 2010/11, but will remain frozen at £325,000 for individuals.

IHT is payable at 40% on assets exceeding £325,000, so for homeowners who have some savings and other assets such as shares and securities, their estate could well be liable. Early planning is essential in order to minimise your liability to IHT.

Some key IHT planning strategies may include:

- **Making use of reliefs:** including relief on business and agricultural property
- **Exempt transfers:** Transfers between spouses are generally exempt from IHT. The transferable nil-rate band may also be transferable between spouses
- **Small gifts** to individuals not exceeding **£250** per recipient per tax year
- **Annual transfers** not exceeding **£3,000**
- **Gifts** in consideration of marriage/civil partnership
- **Normal expenditure** out of income
- **Gifts** to charities
- **Lifetime gifts:** this can significantly reduce your IHT liability
- **Trusts:** utilising a trust can afford a degree of control over the assets, whilst placing them outside of your estate.

Make sure you talk to us about strategies to reduce your IHT liability.

The new 50% income tax rate

New income tax rates of 50% and 42.5% are set to come into effect on 6 April 2010 – and you may already have earned income which will be taxed at these rates. This could include:

- self-employed profits for accounting periods ending on/after 6 April 2010 (50%)
- company profits to be distributed by dividends/bonuses payable after 5 April 2010 (42.5/50%).

Options for reducing the impact for those whose taxable income will exceed £150,000 in 2010/11 might include:

- accelerating income into the 2009/10 tax year by paying dividends/ bonuses earlier
- a change of accounting date for a self-employed business to shift profits into 2009/10
- forms of salary sacrifice where there is a saving to be made by replacing salary with certain benefits-in-kind.

While these options may shift income to a lower tax rate, they may also mean that additional cash needs to be found, either to withdraw from the business (for example as dividends, though the money could be loaned back) or to pay the tax.

Changing the accounting date for a self-employed business and accelerating dividends will typically mean that profits are taxed sooner, so the advantage of a significant delay between earning profits and paying tax will be lost.

Please talk to us about strategies to minimise the impact of the new income tax rates.

For further information on any of the issues raised here, and to discuss more year end strategies that suit your individual circumstances – such as tax-efficient savings and investments, capital allowances, and extracting profit from your business – please contact us.

