



Tax and Financial Strategies 2009/10

You are likely to have many financial goals in life, and deciding how to meet those goals requires careful planning.

Effective tax and financial planning plays a central role, not only in lowering and deferring the tax you pay, but also allowing you to free up cash for investment, business or personal purposes, and helping to provide long-term financial security for you and your loved ones.

This guide introduces some of the key areas that should form part of your financial planning strategy. However, your exact requirements will depend on your individual circumstances, so please contact us for one-to-one advice that is tailored to your needs.

How to benefit from our services

- Please read those chapters which are relevant to you
- Make a note of the key points arising from this guide, and any action you may wish to consider
- Contact us as soon as possible to discuss your action points, and to review your long-term financial plans.

We will be delighted to assist you.

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The general effect of the Civil Partnership Act is to treat civil partners on a consistent basis with married couples. For the purposes of this guide we have on occasions referred only to spouses.

'HMRC' refers to HM Revenue & Customs.

This publication has been based on current understanding of legislation. It is for general information only and under no circumstances should action be taken without first seeking appropriate professional advice.

Foreword: Planning in a Recession

During times of economic difficulty, it is more important than ever to have in place sound tax and financial strategies to protect your business and your personal wealth.

Key business strategies

Some key business strategies to consider during a recession include:

- Keeping on top of credit control

It is essential to exercise proper credit control procedures. This includes performing credit checks on new and potential customers, invoicing promptly, and employing a rigorous debt collection policy.

- Keeping on top of costs

Consider areas where you might save business costs. Carry out an energy audit to look for areas where energy might be wasted, and consider a change of supplier. Check stock levels – are you carrying more stock than is sensible?

- Managing cash flow

Cash flow can be a significant problem in times of economic stagnation. Drawing up a realistic cash flow forecast and carefully monitoring cash flow will allow you to identify potential points of difficulty and take the appropriate action before your business becomes vulnerable.

- Forward planning

Planning and monitoring performance can help you spot a crisis before it breaks – taking a step back from your day to day work to see how the business is shaping up could be key to your business survival.

Planning ahead is vital to the success of your business, and you need to plan carefully those changes that can be made to strengthen your business in times of economic uncertainty.

We can work with you to plan for your business's future.

Contact us for advice on a range of tax-efficient strategies for your business, including:

- minimising your business taxes
- making the most of capital allowances
- reducing company car costs
- accelerating expenditure into the current year, or deferring income into the next.

Protecting your personal wealth

In a time of recession, you also need to ensure that you are making the most of your personal finances. Saving for the future has become increasingly important, but in some ways more difficult, as a result of recent economic trends. To boost your personal wealth in the short term, you may look for ways of reducing your regular outgoings.

Reducing spending costs

Strategies to reduce your spending costs may include:

- switching credit card suppliers to take advantage of interest-free periods
- changing your utility provider
- introducing energy-efficient measures in the home.

Your income and personal wealth can also be significantly reduced by regular income-related taxes, and more periodic taxes, such as capital gains and inheritance tax. As your accountants, we can help you to:

- save money tax-efficiently
- make the most of personal allowances
- extract profit from your business
- review your pension arrangements
- reduce your inheritance tax liability
- spread your tax payments.

Contact us to review your financial strategies in the light of the current economic climate.

Strategies for You and Your Family

Achieving your financial goals

Whatever your age, personal situation or financial status, you will have goals for yourself and for your family. We can help you put in place the necessary planning measures to make these goals a reality. This might seem like a formidable task, when you consider that you may need to include: raising young children and saving for their education; helping to care for and support ageing parents; achieving the standard of living you want for your household; and funding your retirement.

However, as you will see in this guide, there are some definitive plans that you can make and steps you can take.

Tax allowances and exemptions

Let's start by looking at some of the worthwhile strategies you could apply within the family.

Each member of your family is taxed as an individual, and so is entitled to his or her own allowances and exemptions.

Allowances and rate bands are allocated first to your earned income (which includes pensions), then to your savings income, and finally to any UK dividend income.

Aged 65 or over?

The personal allowance for 2009/10 for those aged 65 to 74 at 5 April 2010 is £9,490, and for those aged 75 or over it increases to £9,640. Both higher allowances are scaled back if income exceeds £22,900, but in any event the minimum personal allowance is £6,475. The married couple's allowance may be reduced if the husband's income exceeds £22,900. This is subject to a minimum tax reduction of £267. For marriages on or after 5 December 2005 and for civil partners, it is the income of the spouse or civil partner with the most income which governs the scale back.

Age at 5 April 2010	Personal allowance	Maximum married couple's allowance
65 - 74	£9,490	
75+	£9,640	

Elder spouse		Tax reduction
75+		£696.50
Minimum		£267.00

Key planning objectives for the family

With careful planning, using the available personal allowances and gains exemptions, a couple with two children could have income and gains of at least £66,300 tax-free, and income up to £175,500 before paying any higher rate tax. Planning objectives should include:

- Making the most of tax-free opportunities
- Keeping marginal tax rates as low as possible
- Maintaining a spread between income and capital.

Income tax rates for 2009/10	Earnings etc	Savings	UK Dividends
Income			
First £6,475	–	–	–
Next £2,440	20%	10%/20%*	10%
Next £34,960	20%	20%	10%
Excess	40%	40%	32.5%

Capital Gains			
First £10,100		Tax-free	
Remainder		18%	

* There is a 10% starting rate for savings income up to the starting rate limit (£2,440) within the basic rate band. Where taxable non-savings income does not fully occupy the starting rate limit the remainder of the starting rate limit is available for savings income.

Planning for 2010

From 6 April 2010 the top rate of income tax, for those with taxable incomes in excess of £150,000, will be 50% (42.5% for dividends). Talk to us now for our latest thoughts on minimising the impact of the new tax rates.

Transferring your assets

Planning is often hindered by the potential for tax charges to arise when assets are moved between family members. Most gifts are potentially taxable as if they were disposals at market value, with a resulting exposure to capital gains tax (CGT) and inheritance tax (IHT).

However, there is normally no tax charge on transfers of assets between spouses living together (transfers on or within seven years of death to a spouse domiciled outside the UK are exempt only to the extent of £55,000), or between separated spouses in the tax year in which separation occurs. Gifts must be outright to be effective for tax, and must not comprise a right only to income. Careful timing and advance discussion with us is essential.

Case Study 1

Tony is a single person with a gross income of £45,000 (made up of £25,000 earnings, £5,000 of interest and grossed-up UK dividends of £15,000) and capital gains of £11,000 (assuming no other reliefs, etc). He would have a tax liability of £6,620.12.

	Earnings	Interest	UK Dividends	Gains
Income and gains	25,000	5,000	15,000	11,000
Deduct: Personal allowance	- 6,475			
Deduct: CGT exemption				-10,100
Taxable	18,525	5,000	15,000	900
Tax at: 10% on				
20% on	18,525	5,000		
10% on			13,835	
32.5% on			1,125	
18% on				900
Totals	£3,705.00	£1,000.00	£1,753.12	£162.00
			Total tax liability £6,620.12	

Your children

One of the biggest financial challenges facing children today is the amount of debt they will have incurred by the time they leave university. Studies suggest that students going to university now could come out with debts in the region of £20,000.

For younger children, the Child Trust Fund may create the opportunity for parents, grandparents and other family members to build – with Government help – a fund to help offset university expenses and minimise debt at the start of the child's working life. With an initial payment of £250 (£500 for low income families) from the Government plus a second payment of £250/£500 at age seven and perhaps further state payments, parents and others can add up to £1,200 a year to the tax-free fund which can be available any time after the child reaches 18.

Older children will not receive the Government help, but they do have their own personal allowances, meaning that income up to £6,475 escapes tax this year, as long as it does not originate from parental gifts. If income from parental gifts exceeds £100, the parent is taxed on it unless the child has reached 18, or married. Thus parental gifts should perhaps be invested to produce tax-free income, or accumulate income, or in a cash ISA. The £100 limit does not apply to gifts into the Child Trust Fund or National Savings Children's Bonus Bonds.

Generation skipping

Income from capital gifted by grandparents or more remote relatives will be taxed as the child's, as will income distributions from a trust funded by such capital.

Marriage breakdown

Maintenance payments do not usually qualify for tax relief. Similarly, maintenance payments received under orders or agreements are not taxable. However, tax relief worth up to £267 this year is given on maintenance paid to a former spouse under orders or enforceable agreements, as long as at least one of the former parties to the marriage was born before 6 April 1935.

The special CGT/IHT treatment for transfers between spouses applies throughout the tax year in which separation occurs. For CGT, transfers in subsequent years are dealt with under the rules for disposals between connected persons, with the disposal treated as a sale at market value, which could result in substantial chargeable gains. For IHT, transfers remain exempt until the decree absolute.

Therefore, careful consideration on the timing of such transfers is needed.

Personal contingency planning

How would your spouse and/or children manage if you died or were incapacitated tomorrow?

Beyond taking the obvious step of ensuring you have adequate insurance cover, with life assurance perhaps written into trust for your spouse or children to ensure quick access to funds, you need to make a Will. We also strongly recommend that you:

- **Make a living Will:** so you can make clear your wishes in the event that, for example, you are pronounced clinically dead following an accident
- **Execute a lasting power of attorney:** so that if, whether as a result of an accident or illness, you become incapable of managing your affairs, you can be reassured that responsibility will pass to someone you choose and trust.

Of course, all of this also applies for your spouse. Make sure that your family protection planning considers the possibility that both parents may be simultaneously killed or incapacitated.

On a practical note, tell your spouse, your parents, and your business partners where your Will and any related documents are kept – it is still up to you to decide whether to tell them what the documents contain, but if you are passing responsibility for managing your affairs on to others, it would be advisable to talk matters through with them now.

Do you have unclaimed assets?

It is estimated that over £15 billion of assets lie unclaimed in the UK. To see if you have any lost assets contact the unclaimed assets register on **0870 241 1713**.

To see if you have an unclaimed Premium Bond prize, call **0845 964 5000** or visit **www.nsandi.com**.

Taxation of non-domiciliaries and others entitled to claim the remittance basis for UK taxation

The rules are complex and a full analysis is beyond the scope of this guide, so please talk to us if you are affected. But as a very brief summary of the position for 2009/10:

- If you are an adult caught by the 'years of residence' rule, and your unremitted foreign income or gains exceeds £2,000, you will have to make a choice of whether to include them in your self-assessment return for 2009/10 and pay UK tax or pay the £30,000 tax charge. The decision is made when you complete your 2010 Tax Return, and the tax will be payable as 2009/10 tax
- You may be able to claim credit for the UK tax/£30,000 against your liability elsewhere in the world, and against the UK liability when the income or gains are eventually remitted
- The concept of what constitutes a remittance goes beyond money you bring into the UK. For example, tax will be due on the remittance to the UK by close family members of income or gains gifted by you to them outside the UK, and on the import of assets bought outside the UK using untaxed income or gains (subject to limited exemptions)
- Key to managing your tax liabilities is the ability to identify and track capital, income and gains. People affected should seek advice on keeping different types of funds separate, how to remit 'clean' and 'tax-paid' income and gains, and on how money brought into the UK from mixed funds will be taxed.

Checklist: Financial protection strategies		
	Self √	Spouse √
Essential:		
Will		
Living Will		
Lasting power of attorney		
Life assurance		
Keep papers in a safe place – and make sure other people know where they are!		
Seriously consider:		
Income, mortgage and loan protection insurance		
Estate planning to minimise the tax due on your estate Planning for the transfer of your business		
Other points to think about:		
Funeral arrangements and expenses		
A tax-efficient gift strategy		

Please contact us to discuss the following:

- Understanding your available tax allowances and rates
- Making the most of tax-free opportunities
- Keeping tax rates as low as possible across the family

- Using savings, capital and the Child Trust Fund to give your children a better start in life
- Making a Will
- Making a living Will and giving someone you trust a lasting power of attorney over your affairs
- Insuring your life and obtaining disability and critical illness insurance
- Saving for income and investing for capital growth
- Planning in the event of marriage breakdown

Effective Business Planning

Starting a new business venture

Even in an economic boom, starting a new business is a risky proposition. There are many factors to consider, including: the nature of the business; your target market and competitors; the potential for profit; how you plan to extract those profits; how fast the business will grow; how the business will impact on your life; the potential risks involved; and how you plan to exit the business.

Business plan: A comprehensive business plan is essential. This should include: your sources of funding, tax-efficient borrowings, whether the business needs a PAYE scheme or to be VAT registered and, not least, the business structure that will best meet your needs (sole owner, partnership, limited liability partnership or limited company). We can help you through the decision-making process – and to make the appropriate registrations. A good cash flow forecast can help you spot potential times when cash will be short, and regular updates will help you to see how your business is performing.

Business structure: There are both advantages and disadvantages for each trading structure and each has implications for control, perception, support, and costs. For example, careful consideration is needed regarding whether or not to retain personal ownership of any freehold property on an incorporation of business.

Choosing a year end: It is also important to choose the right year end for your business. Is there a time of year when it will be more convenient to close off your accounting records, ready for us? What would be the best time of year for stock-taking? To what extent is your business seasonal? From a tax viewpoint, the choice of a year end early in the tax year for an unincorporated business usually means that an increase in profits is more slowly reflected in an increased tax bill. Conversely, a reduction in profits will more slowly result in a lower tax bill.

HM Revenue & Customs registration: Advising HMRC when you become self-employed, and probably liable to Class 2 national insurance contributions (NICs), may not be very high on your list of priorities in the first weeks and months of a new business – but failure to notify will attract a penalty if tax or NICs are unpaid as a

result. You should register as soon as possible to begin paying NICs and notify HMRC of your new self-employed status.

Action plan for starting a business	√
Prepare a robust business plan	
Ensure you have access to appropriate funding	
Check your right to use your chosen trading name	
Choose the right business structure	
Register with HM Revenue & Customs	
Register for VAT	
Register your business name	
Trade and professional registrations	
Choose your year end	
Develop your branding	
Involve the family	
Plan to avoid fines and penalties	
Plan to minimise your tax liabilities	

Deductible expenses

Our role is to work with you to minimise your taxes, and it is important to take advantage of all available opportunities.

You will pay tax on your taxable profits, so it is essential to claim all deductible expenses, many of which will be included in your accounting records. You can claim a proportion of your heating and lighting bills and a proportion of your home telephone bills if you work from home.

You can also claim for the cost of travel and accommodation when you are working away from your main place of business. You must keep adequate business records – including a log of business journeys – because in addition to ensuring your accounts are accurate, these records may be requested by HMRC.

Have you considered using an appropriate computer package for record keeping?

Claiming capital allowances

'Capital allowances' is the term used to describe the deduction we are able to claim on your behalf for expenditure on business equipment, in lieu of depreciation.

Annual Investment Allowance (AIA): The first £50,000 of the year's investment in plant and machinery, except for cars, is allowed at 100%. This applies to any size of business and most business structures, but there are provisions to prevent multiple claiming. Businesses are able to allocate their AIA in any way they wish; so it is quite acceptable for them to set their allowance against expenditure qualifying for a lower rate of allowances (such as long-life assets or integral features) - see below.

Writing Down Allowance (WDA): Any additional expenditure over the AIA level enters either the main 20% pool or a special 10% pool, attracting WDA at the appropriate rate. For expenditure in the year ending 31 March 2010 (corporates) or ending 5 April 2010 (individuals and partnerships) there will be a 40% first year allowance for plant and machinery that would normally be allocated to the main pool. The special rate 10% pool applies to long life assets, the addition of thermal insulation to existing commercial buildings, and integral features of buildings, specifically:

- Electrical systems (including lighting systems)
- Cold water systems
- Space or water heating systems, powered systems of ventilation, air cooling or purification and any floor or ceiling comprised in such systems
- Lifts, escalators and moving walkways
- External solar shading
- Active facades (climate-responsive features).

The 20% pool applies to most other plant and equipment, including cars (overleaf).

Businesses may claim a WDA of up to £1,000 where the unrelieved expenditure in the main pool or the special rate pool is £1,000 or less.

Enhanced Capital Allowances (ECA): In addition to AIA, a 100% first year allowance is available on energy saving or environmentally beneficial equipment. Where companies (only) have losses arising from ECAs, they may choose how much they wish to carry forward and how much they wish to surrender for a cash payment (tax credit payable at 19%).

There is a separate ECA scheme for electric and low CO₂ emission (up to 110 g/km) cars and natural gas/hydrogen refuelling equipment. They still qualify for the 100% first year allowance, but do not qualify for the payable ECA regime.

Buildings: The phased withdrawal of industrial and agricultural buildings allowances impacts during 2009/10 with essentially a reduction in the WDA by 25%. If a trader obtained 3% allowance previously, the allowance is now 2%, subject to transitional rules.

A maximum 100% initial allowance is available for conversion of parts of business premises into flats, business premises renovation allowance and Enterprise Zone Allowance. WDA of 20% applies to expenditure on which initial allowance is not claimed.

Cars: A rate of 20% applies to cars with CO₂ emissions exceeding 110 g/km. However, cars with CO₂ emissions above 160 g/km will be restricted to 10% WDA. Expenditure incurred before April 2009 on “expensive” cars continues under the old regime (£3,000 per year cap on capital allowances). Cars with a non-business use element continue to be dealt with in single asset pools, so the correct private use adjustments can be made but the rate of WDA will be determined by the car’s CO₂ emissions.

Investing in research and development

Tax relief is available on research and development (R&D) revenue expenditure at varying rates. Maximum rates of relief for 2009/10 are as follows:

- For small and medium-sized companies paying tax at 21%, the maximum rate of tax relief is 36.75% (that is a tax credit on 175% of the expenditure)
- For small to medium-sized companies not yet in profit, the maximum rate of relief is 24.5%
- For larger companies paying tax at 28%, the maximum rate of relief is 36.4% (a credit on 130% of the expenditure).

This is subject to a minimum annual spend of £10,000. SME relief is capped at 7.5 million per project and subject to the most recent accounts having been prepared on a going concern basis.

SMEs barred from claiming SME R&D tax credit by virtue of receiving some other form of state aid (usually a grant) for the same project will be able to claim the large company R&D tax credit. This means that they will qualify for relief on 130% of their R&D expenditure. SME changes are subject to compliance with EC guidelines.

Involving your family

You can employ family members in your business, provided the package is commercially justifiable. You can remunerate family members with a salary, and perhaps also with benefits such as a company car or perhaps medical insurance – and you can make payments into a registered pension scheme. An alternative to a company car is to provide a van: the maximum annual tax bill on the use of a company van is only £1,200 – or £1,400 with unlimited private use and free fuel.

You can also take family members into partnership, thereby gaining more flexibility in profit allocation. In fact, taking your non-minor children into partnership and gradually reducing your own involvement can be a very tax-efficient way of passing on the family business. Be aware that taking family members into your business may put the family wealth at risk if, for example, the business were to fail.

HMRC may well challenge excessive remuneration packages or profit shares for family members, so seek our advice first. If you operate your business through a trading limited company, under current tax law you can pass shares on to other family members and thus gradually transfer the business with no immediate tax liability in most cases. However, a tax saving for the donor usually impacts on the donee, and you need to steer clear of the 'settlements legislation', so again, seek our advice first.

Unincorporated businesses

Business profits are charged to income tax and Class 4 NICs on the current year basis. This means that the profits 'taxed' for each tax year (ending 5 April) are those earned in the accounts year ending in the tax year.

Case Study 2

Natasha, a sole trader, draws up her accounts to 31 July each year. Her profits for the year ended 31 July 2009 will normally be taxed for 2009/10.

There are special rules for the early and final years of a business, and for partnership joiners and leavers.

There is a growing number of 'fines' for those not complying with the rules and regulations of Government departments. We have already mentioned income tax and Class 2 national insurance, but other 'traps' to avoid are:

- Late VAT registration
- Late filing penalties
- Late payment surcharges and interest
- Penalties for errors in returns
- Penalties for failing to operate a PAYE or sub-contractors scheme

If we are to help you to steer clear of these traps, you must let us have all the details for your accounts and Tax Returns in good time, and tell us of all changes in your business, financial and personal circumstances.

Your employment status

There is no statutory definition of 'employment' or 'self-employment'. Rather, there is a series of 'tests' which HMRC will apply if they believe someone is classified incorrectly.

Because large amounts of both tax and national insurance can be at stake, HMRC can take quite an aggressive line and mistakes can cost you dearly, so advice specific to your situation is essential.

'IR35' rules require businesses to consider each and every contract they enter into for the provision of services. The test is whether or not the contract is one which, had it been between the owner or partner and the customer, would have required the customer to treat the owner or partner as an employee and therefore subject to PAYE.

The contract 'passes' if the owner/partner would have been classified as self-employed; it fails if the owner/partner would have been classified as an employee.

If the contract 'fails', the business is required to account for PAYE and national insurance on the 'deemed' employment income from the contract at the end of the tax year.

This is done using specific rules. We would be happy to advise you about these.

Debtors and unbilled work

It is a feature of the tax system that businesses must include in their turnover for the year the value of incomplete work, of unpaid bills (debtors) and of work completed but not yet billed, all as at the end of the year. This was not always the case, and thus HMRC has been 'catching up'.

We will need to discuss with you exactly what needs to be identified and the basis of valuation.

Considering limited company status

You could form a limited company if the limitation of liability is an important consideration – but do bear in mind that banks and other creditors often require personal guarantees from directors for company borrowings.

Trading through a limited company can be an effective way of sheltering profits. Profits paid out in the form of salaries, bonuses, or dividends may be liable to top tax rates, whereas profits retained in the company will be taxed at rates from as low as 21%.

Retained funds can be used to buy equipment or to provide for pensions – both of which are eligible for tax relief. An increasing number of businesses have incorporated, but there are important implications which we would welcome the opportunity to discuss with you, before you decide whether or not to incorporate your business.

National insurance contributions

Although leaving profits in the company can be tax-efficient, you need money to live on, so you should consider the best ways to extract profits.

A salary will meet most of your needs, but do not overlook the use of benefits, which may save income tax and could also result in a lower national insurance liability.

Six steps to saving NICs:

- Increasing the amount the employer contracts to contribute to company pension schemes (subject to allowance not being exceeded)
- Share incentive plans (shares bought out of pre-tax and pre-NIC income)
- For companies, disincorporation and instead operating as a sole trader or partnership
- Instead of more salary, paying a bonus to reduce employee (not director) contributions
- Paying dividends instead of bonuses to owner-directors
- Provision of childcare and other tax-free benefits.

Increasing net income as an owner-director

As an example, consider how much you might save if, as an owner-director, you wanted to extract the £10,000 profit your company makes in 2009/10 by way of a dividend rather than a bonus.

Case Study 3

As you can see in this case study, the net income is increased by more than 13% by opting to declare a dividend. Be sure to discuss this with us, as this is a complex area of tax law.

	Bonus £	Dividend £
Profit to extract	10,000	10,000
Employers' NIC	- 1,135	
Gross bonus	8,865	
Corporation tax		-2,100
Dividend		7,900
Employees' NIC	- 89	
Income tax @ 40%	- 3,546	
Additional tax		- 1,975
Net amount extracted	£5,230	£5,925

Please note that in Case Study 3 we assume that you are paying higher rate tax, and that your earnings exceed the so-called 'upper limit' for NICs. There are many matters to be considered when deciding whether directors should be paid by dividend or salary/bonus. In practice, a combination of each is often an appropriate course.

Remember that dividends are usually payable to all shareholders. Although it is possible to waive dividends, this can result in tax complications, so a better option may be to have different classes of share. Finally, you need to consider with us the effect of regular dividend payments on the valuation of shares in your company.

Strategies to implement before the year end

Tax and financial planning should not be left until the end of the tax or financial year, but in advance of the end of YOUR business year. Issues to consider include:

- The impact on your tax position and financial results of accelerating expenditure into the current financial year, or deferring it into the next
- Additional pension contributions or reviewing your pension arrangements
- How you might take profits from your business at the smallest tax cost, and how the timing of payment of dividends and bonuses can reduce or defer tax
- Avoiding overvaluing stock and work in progress
- Improvements to your billing systems and record keeping, or a general systems review to improve profitability and cash flow
- NI efficiency and employee remuneration packages with potential cost savings for both you and your employees.

Tax payment deadlines

For the self-employed, the timetable of tax payments is relatively straightforward:

- 31 January in the tax year, first payment on account
- 31 July after the tax year, second payment on account
- 31 January after the tax year, balancing payment.

If you have incorporated your business the company will be paying corporation tax. Corporation tax is normally payable nine months and one day after the end of the accounting period.

There is also a system of interest and surcharges to encourage prompt payment.

For example, if you do not make your full 2008/09 balancing payment by 28 February 2010, HMRC will add a 5% surcharge as well as the interest that will be charged from 1 February 2009. Delay until after 31 July 2009, and a further 5% surcharge in

addition to the interest will be added. In addition interest is charged on outstanding surcharges, as well as on unpaid tax and NICs.

If cash flow is tight, HMRC could be persuaded to accept a spreading of your next business tax payment – you will have to pay interest at the HMRC rate, but keep to the agreed schedule and surcharges will be waived. Arrangements need to be put in place before the due date for paying the tax, so talk to us in good time if you need or wish to apply.

Reducing payments on account

Payments on account are normally equal to 50% of the previous year's net liability. A claim can be made to reduce your payments on account, if appropriate, although interest will be charged if your actual liability is more than the reduced amount paid on account.

Please do not wait until it's too late – keep us informed of any factors which might change your tax liability.

We can only suggest business solutions if you tell us in good time about any issues facing your business.

Payments on account will not be required where each payment works out at less than £500, or where the self assessment tax/NIC is less than 20% of the previous year's total income tax/Class 4 NIC liability (instead, the full liability is due on 31 January after the tax year).

Case Study 4

Elizabeth is self-employed. Her accounts are made up to 31 August each year. When we prepare the 2009 Return we will be including her profit for the year ended 31 August 2008, and that is the profit which will be taxed for 2008/09.

Elizabeth's payments on account for 2009/10 will automatically be based on the 2008/09 liability.

If we know that Elizabeth's profits for the year to 31 August 2009 are significantly less than the previous year, we can discuss the figures, perhaps even prepare the annual accounts, and make a claim to reduce Elizabeth's 2009/10 payments on account, easing her cash flow by reducing the tax payments due in January and July 2010.

Make sure you talk to us about:

- Planning your business start-up
- Finding investors and obtaining finance
- Making contact with patent and intellectual property law specialists

- Help in complying with Government regulations and avoiding fines, surcharges, penalties and interest
- Timing capital and revenue expenditure to maximum tax advantage
- Improving your invoicing and debt recovery systems
- Energy audits
- Involving family members in the business
- Developing a plan for tax-efficient profit extraction
- Improving profitability
- Protecting your business from financial disaster
- Valuing your business
- Minimising employer and employee NIC costs
- Minimising tax costs, enabling you to keep more of the profit you earn
- Making the most of your losses (tax carry-back)
- Identifying and valuing unpaid bills and unbilled work at the year end
- Changes in your business and in your personal life
- Selling your business and grooming your business for sale
- Preparing yourself and your business for your exit, succession or retirement

Looking ahead:

And remember, the highest rate of income tax will rise to 50% in 2010 for those with taxable incomes of more than £150,000 (and personal allowances will be phased out for those with adjusted incomes in excess of £100,000). Dividends will be taxed at up to 42.5%. Talk to us for the latest information on planning to minimise the impact.

Tax and Employment

Finding the correct PAYE code

The PAYE system aims to collect, over the course of a tax year, approximately the right amount of tax from your earnings. This is done by the issue of one, or sometimes a series of, tax codes, which are used by your employer to calculate the tax to be deducted from your earnings.

However, many people can go for years paying the wrong amount of tax – either too much or, perhaps more worryingly, too little – because they have an incorrect tax code. In particular, they may not have notified the tax office of changes in their circumstances that would affect their tax position, such as changing jobs and losing the benefit of a company car, or they may have started investing in a personal pension plan.

It is important that we check your PAYE code now, because it is much easier to rectify mistakes before the tax year ends. As a first step, though, look at your salary slip and see which code is currently being applied.

The letter in the code tells us whether your code includes one of the standard allowances, and you can see if this is right for your circumstances:

L includes the basic personal allowance

P includes the full higher rate personal allowance for age 65 - 74 (assumes income less than £22,901)

Y includes the full personal allowance for age 75 or over (assumes income less than £22,901)

There is usually an adjustment in your code which requires manual checking by HMRC each year – for example, you might be over 65 with income over the limit for the full higher rate of personal allowance and therefore your allowance has to be re-calculated every time the rates and limits change

K HMRC often try to increase the tax you pay on one source of income to cover the tax due on another source which cannot be taxed direct – for example, the tax due on your state pension might be collected through increasing the tax you would otherwise pay on your company pension. A K code applies when the ‘other income’ adjustment reduces your allowances to less than zero – in effect, it means that the payer has to add notional income to your real income for PAYE purposes. The maximum tax which can be deducted using a K code is 50% of the source income.

HMRC will often try to collect tax on other income through the use of a K code but you may prefer to pay the tax through self assessment – we can arrange for the adjustment to be removed.

Low-interest or interest-free employer loans

Where loans from an employer total more than £5,000 at any point during the tax year, tax is chargeable on the difference between any interest actually paid and interest calculated at the official rate.

Expense payments

Your employer is required to report expenses payments to HMRC on form P11D each year. To avoid paying tax on these payments you have to claim a deduction on your Tax Return – your employer should provide you with a copy of your 2009/10 P11D no later than 6 July 2010.

This laborious process of reporting and claiming may be avoided if your employer has been granted a dispensation. Expense payments covered by the dispensation do not have to be reported to HMRC and do not have to be included, with a counter-claim, on your own Tax Return. Payments covered by dispensations will be subject to review from time to time, including during an employer compliance visit from HMRC.

You may be able to claim tax relief for other expenses you incur in connection with your job, but the rules are fairly restrictive.

An attractive remuneration package can include any of the following:

- Salary
- Reimbursement of expenses
- More generous expenses – business travel in first or business class, or a better quality hotel on business trips
- Bonus schemes and performance-related pay
- Share incentive arrangements
- Pension provision
- Childcare
- Life assurance and/or healthcare
- Choice of a company car or additional salary and reimbursement of car expenses for business travel in your own car
- Mobile phone
- Contributions to the additional costs of working at home
- Other benefits including, for example, an annual function costing not more than £150 (including VAT) per head, or long service awards
- Although most benefits are fully taxable, some attract specific tax breaks. Combining benefits with a properly arranged salary sacrifice can mean substantial savings for both employer and employee

Travel and subsistence claims

Site-based employees are able to claim a deduction for travel to and from the site at which they are working, plus subsistence costs when they stay at or near the site.

Employees working away from their normal place of work can claim a deduction for the cost of travel to and from their temporary place of work. The maximum period for which a place of work can be regarded as 'temporary' is currently 24 months.

Approved business mileage rates		
Vehicle	First 10,000 miles	Thereafter
Car / van	40p	25p
Motorcycle	24p	24p
Bicycle	20p	20p

Pension schemes

Employer contributions to a registered employer pension scheme or your own personal pension policies are not liable for tax or NICs (subject to the 'Special Annual Allowance' rules - see page 16)

You should be aware that while your employer can contribute to your personal pension scheme, these contributions are combined with your own for the purpose of measuring your year's pension input against the annual allowance (£245,000 for 2009/10).

The company car

The company car continues to be an important part of the remuneration package for many employees, despite the increases in the taxable benefit rates over the last few years. Employees and directors pay tax on the provision of the car and on the provision of fuel by employers for private mileage. Employers pay Class 1A NICs at 12.8% on the same amount. This is payable by the 19 July following the end of the tax year.

The amount on which tax and Class 1A NICs are paid in respect of a company car depends on a number of factors. Essentially, the amount charged is calculated by multiplying the list price of the car, including most accessories, by a percentage. The percentage is set by reference to the rate at which the car emits carbon dioxide (CO₂). (See table below)

Environmentally-friendly cars

A special rate applies for qualifying low emissions cars (QUALECs). The percentages are reduced for other cars that can be driven on alternative fuels by:

- 2% for cars manufactured to be capable of being run on E85 fuel

- 2% for bi-fuel cars or those which run on LPG only
- 3% for hybrid electric and petrol cars
- 6% for electric only cars (in practice the taxable benefit will be 9% of the price).

Fuel for private mileage

If your employer provides fuel for any private travel, there is a taxable benefit, calculated by multiplying by the fuel benefit multiplier of £16,900, by the same percentage as above. You can avoid the car fuel charge either by paying for all fuel yourself and claiming the cost of fuel for business journeys at HMRC's fuel only advisory rates, or by reimbursing your employer for fuel used privately using the same rates.

Company car benefit percentages								
CO ₂ in g/km	Taxable%		CO ₂ in g/km			CO ₂ in g/km	Taxable%	
	Petrol	Diesel		Petrol	Diesel		Petrol	Diesel
120 and below	10%	13%						
121 - 139	15%	18%	170 - 174	22%	25%	205 - 209	29%	32%
140 - 144	16%	19%	175 - 179	23%	26%	210 - 214	30%	33%
145 - 149	17%	20%	180 - 184	24%	27%	215 - 219	31%	34%
150 - 154	18%	21%	185 - 189	25%	28%	220 - 224	32%	35%
155 - 159	19%	22%	190 - 194	26%	29%	225 - 229	33%	35%
160 - 164	20%	23%	195 - 199	27%	30%	230 - 234	34%	35%
165 - 169	21%	24%	200 - 204	28%	31%	235 and over	35%	35%

The above rates are subject to change; please check with us for any subsequent rate changes.

Car – fuel only advisory rates			
Engine capacity	Petrol	Diesel	Gas
up to 1400cc	10p	11p	7p
1401 - 2000cc	12p	11p	9p
Over 2000cc	17p	14p	12p

Rates from January 2009. Subject to change; please contact us for the latest rates.

Two rules of thumb

Am I better off giving up the company car and instead claiming mileage allowance for the business travel I do in a car that I buy myself? The rule of thumb answer is that you are more likely to be better off if your annual business mileage is high.

Am I better off having my employer provide me with fuel for private journeys, free of charge, and paying tax on the benefit, or bearing the cost myself? The rule of thumb answer is that you are more likely to be better off taking the free fuel if your annual private mileage is high.

Every case needs to be looked at on its own merits, and considered from the point of view of both the employee and the employer. And cost is not the only factor. As an employee, it might cost you more to have a company car, but you do not have to worry about bills or the cost of replacement. As an employer running company cars, it might be more expensive, but you retain control over what may, for your business, be key operating assets.

Pooled cars

Some employers find it convenient to have one or more cars that are readily available for business use by a number of employees. The cars are not allocated to any one employee and are only available for genuine business use. Such cars are usually known as pooled cars. HMRC's definition of a pooled car is very strict, but if a car qualifies there is no tax or NIC liability.

Company vans

Unlimited use of a company van results in a taxable benefit of £3,000, with a further £500 benefit if free fuel is also provided. The resulting tax bill can be up to £1,400, with an NIC bill for the employer of £448. Restricting the employee's private use to only home to work travel could mean that both figures reduce to zero. Many people have seen significant savings for both employer and employee in replacing company cars with employee-owned cars part-funded by mileage allowances at HMRC rates. Where a company vehicle is still appropriate, a 'van' rather than a car is worth considering. (Why the inverted commas? You might be pleasantly surprised by some of the vehicles that qualify as 'vans'!)

Case Study 5

Helen is an owner-director. For her company car she had chosen one with a list price of £18,000. The car runs on petrol, and emits CO₂ at a rate of 182 g/km. Helen's company is successful and she pays tax at 40%. Her 2009/10 tax bill on the car is therefore £1,728.00 (£18,000 x 24% x 40%).

Helen's company will pay Class 1A NICs of £552.96 (£18,000 x 24% x 12.8%). The company also pays for all of Helen's petrol. Because Helen does not reimburse the cost of fuel for private journeys, she will pay tax of £1,622.40

(£16,900 x 24% x 40%) and the company will pay Class 1A NICs of £519.17 (£16,900 x 24% x 12.8%).

£4,422.53 is the total tax and NI cost.

Furthermore, although the company is paying for the fuel, the company will also need to pay a gross amount of over £5,678 to provide Helen with the funds to pay the tax. When employers' national insurance is taken into account, the gross cost before tax relief of funding Helen's tax and the NI liabilities will be over £7,477.

Contact us for assistance with:

- Checking your PAYE code
- Putting together an attractive and tax-efficient remuneration package
- Obtaining an HMRC reporting dispensation to cut down on paperwork and compliance costs
- Reducing NIC costs
- Understanding the tax and NIC costs of company cars
- Reducing the cost of company cars, and reviewing the alternatives

Exiting your Business

Planning your exit

The eventual sale of your business might seem a long way off, but we know from experience that careful planning is essential.

Indeed, creating and putting into practice appropriate strategies at each stage of your business life is important if you are to obtain the maximum reward for taking the risks inherent in being in business.

Every business owner should have a personal exit strategy.

Key issues to consider could include:

- Passing on your business to your children or other family members, or a family trust
- Selling your share in the business to your co-owners or partners
- Selling your business to some or all of the workforce
- Selling the business to a third party
- Public flotation or sale to a public company
- Winding up

- Minimising your tax liability
- What you will do when you no longer own the business.

Selling the business

If you consider your business has a market value, or if you are looking to your business to provide you with a lump sum on sale, it is essential to start planning in advance how you will realise that value.

This is particularly important if you envisage realising the value of your business in the next 20 years.

Selling your business is a major personal decision and it is vital to plan how you will maximise the net proceeds from its sale. You will need to consider:

- When might you sell?
- Who are the prospective purchasers?
- What are the opportunities to reduce the tax due following your sale?

Let us help you maximise the net proceeds arising from your 'ultimate sale'.

Building on the sale value

Whoever buys your business will want to be clear about the underlying profitability trends – are profits on the increase or declining?

Up-to-date management accounts and forecasts for the next 12 months and beyond will be close to the top of the list of the information which you will need to make available to prospective purchasers.

The value attributable to many businesses is driven by their historical profits, and therefore a rising trend in profitability should result in an increase in the business's value.

Profitability planning is always important, but is particularly so in the years leading up to the sale. So, what is the range of values for your business?

Although you may think you can make an educated guess, a professional valuation gives you more solid ground. Determine your position today and then work with us to see how you can make your business more valuable.

Valuing your business: points to consider

Are sales flat, growing only at the rate of inflation, or exceeding it?

Is yours a service business with limited fixed assets, or are stock and equipment a large part of your company's value?

To what extent does your business depend on the health of other industries?

To what extent does your business depend on the health of the economy in general?

What is the outlook for your line of business as a whole?

Are your company's products and services diversified?

Does your company use up-to-date technology?

Does your business have an effective research and development programme?

How competitive is the market for your company's goods or services?

Does your company have to contend with extensive regulation?

What are your competitors doing that you should be doing, or could do better?

How strong is the company's staff base that would remain after the sale?

Have you conducted a thorough review of your overheads, to identify areas where costs can be reduced?

Have you formalised contracts with suppliers and customers?

Choosing when to sell

You need to weigh up the factors which might influence the right time for you to sell your business.

Personal factors which you might like to consider include:

- When do you want to retire?
- Do you have any health issues?
- Do you still relish the challenges of running your business?
- Does your business have an heir apparent?
- Will your income stream and wealth be adequate, post sale?

You will also need to consider business-related issues such as:

- What are the current trends in the stock market?
- To what extent is your business 'trendy' or at the leading edge?
- Is your business forecasting increases to the top and bottom lines?

- Is your business doing better than other similar businesses?
- Is your business at, or near, its full potential?

Your capital gains tax liability

Taxes are one of the realities of the businessperson's life. When you raise that final sales invoice and realise the proceeds from the sale of your business, you should be completing one of the last steps in a strategy aimed at maximising the net return by minimising the capital gains tax (CGT) on sale.

CGT basics: As a basic principle, CGT is charged at 18% on the difference between what you paid for an asset and what you receive when you sell it, less your annual CGT exemption if this has not been set against other gains. There are several other provisions, which may also need to be factored into the calculation of any CGT liability.

CGT reliefs may be very valuable: It is possible that reliefs can reduce an 18% CGT bill to zero. If you want to maximise your net proceeds it is vital that you consult with us about the timing of a sale, and the CGT reliefs and exemptions which you might be entitled to claim.

The current situation

The taxable gain is measured simply by comparing net proceeds with total cost (including costs of acquisition and enhancement expenditure). A flat tax rate of 18% then applies. For those in business there is a special tax relief (entrepreneurs' relief) which may reduce the effective tax rate on the first £1million of qualifying gains to 10%. Generally, the relief will be available to individuals on the disposal (after at least one complete qualifying year) of:

- All or part of a trading business carried on alone or in partnership
- The assets of a trading business after cessation
- Shares in the individual's 'personal' trading company
- Assets owned by the individual used by the individual's personal trading company or trading partnership where the disposal is associated with a main qualifying disposal of shares or partnership interest.

Transitional relief is available for certain disposals arising prior to 5 April 2008, where gains were deferred, such as QCBs (qualifying corporate bonds) and EIS (Enterprise Investment Scheme), provided the deferred gain would have qualified for entrepreneurs' relief if it had been available at the time of the original disposal. The provisions also allow for entrepreneurs' relief to be claimed in reorganisation transactions arising from 6 April 2008.

What is clear is that all such planned transactions will require careful scrutiny to ensure entrepreneurs' relief is maximised. Some disposals which would have

qualified for the maximum business assets taper relief do not qualify for the new entrepreneurs' relief. Keep us in the picture – we are best placed to help and advise if you involve us at an early stage.

CGT and non-residents

CGT is normally only chargeable where the taxpayer is resident in the UK at the time the gain arose. CGT may be avoided, provided the taxpayer leaves the UK before the disposal and remains non-resident for tax purposes for five complete tax years. Furthermore there is no liability to CGT on any asset appreciation at your death.

The legacy of inheritance tax (IHT)

Lifetime transfer(s): For the business owner, the vital elements in the IHT regime are the reliefs on business and agricultural property (up to 100%), which continue to afford exemption on the transfer of qualifying property, or a qualifying shareholding.

Transfers on your death: Do not overlook your business when you draw up your Will. Reliefs may mean that there is little or no IHT to pay on your death, but your Will is your route to directing the value of your business to your chosen heir(s) unless the disposition of your business interest on your death is covered by your partnership or shareholders' agreement.

We can advise you on the following:

- Grooming your business for sale
- Minimising the tax on the sale of your business
- Identifying successors within the business
- Identifying possible purchasers
- Valuing your business
- Preparing the business for success without you
- Timing the sale
- Maximising the sale price
- Planning your transition to your next venture
- Providing succession options through your partnership or shareholders' agreement
- Providing for a smooth transfer of your business interests at your death or if you become incapacitated

- Your business and your Will

A Comfortable Retirement

Your goals in retirement

Recent studies suggest there is a growing gap between the amount of money that people are saving and how much they need to save to ensure a comfortable retirement, with around half the UK population failing to save sufficient funds for their retirement.

You might not want to think about it now, but sooner or later being able to retire when and how you want is likely to be one of your most important financial objectives. Achieving a comfortable retirement will take planning and implementation. Unless you are in the fortunate position of having a final salary pension scheme which is not underfunded you will almost certainly need to augment your state pension. Remember: you could spend a third of your life in retirement.

Retirement planning strategies

As well as your age and the number of years before retirement, your planning strategy will be determined by a number of factors:

- Is there a company pension scheme?
- Are you self-employed?
- How much can you invest for retirement?
- How much state pension will you receive?

You can request a forecast of your state pension from the State Pension Forecast Service, by logging on to www.thepensionservice.gov.uk.

Relying on your state pension, which this year is just under £7,920 for a married couple, is an unrealistic proposition at best.

There is an overall lifetime limit on tax-advantaged pension funds of £1.75 million (2009/10). That limit is set to increase in 2010, when it will reach £1.8 million. There is a tax charge for fund values in excess of the 'lifetime allowance' at retirement, and for excess contributions or increases (set at £245,000 in a policy year for 2009/10). Transitional arrangements protect those who had already reached the 'lifetime' savings limit at 5 April 2006.

Company pension schemes

There are two kinds of company pension scheme, into which you and your employer may make contributions. A final salary scheme pays a retirement income related to the amount you are earning when you stop work, while a money purchase scheme

instead reflects the amount invested and the underlying investment fund performance. In both cases, you will have access to tax-free cash as well as to the actual pension.

The impact of the 2000-2004 stock market downturn was one key factor that resulted in many final salary schemes being underfunded and a decision taken by many firms to close such schemes. Many experts consider that this type of scheme will cease to exist over the next few years, as a result of the current situation. Where companies do provide company pensions these are now almost always based on money purchase.

Those already in company pension schemes should be aware that the rate at which personal contributions can qualify for tax relief is now limited to the greater of £3,600 and total UK relevant earnings, subject to scheme rules.

Special Annual Allowance Charge

From April 2011 the tax relief on pension savings by those with taxable incomes of £150,000 or more will be restricted to the basic rate. To forestall attempts to increase savings before 2011, those with taxable incomes of more than £150,000 will find that contributions in excess of £20,000 or “more than the regular ongoing amounts” between 22 April 2009 and 5 April 2010 and in the year to 5 April 2011 will also be restricted to basic rate tax relief, only.

Private pension schemes

If you are not in a company scheme, you should make your own arrangements, since relying on the state pension is already unwise, and will become more so with each passing year.

Tax year	Annual allowance (input amount)	Tax charge on excess	Lifetime allowance	Tax charge (excess paid as annuity)	Tax charge (excess paid as lump sum)
2006/07	£215,000	40%	£1.5 million	25% on excess value, then up to 40% on annuity	55% on excess value
2007/08	£225,000		£1.6 million		
2008/09	£235,000		£1.65 million		
2009/10	£245,000		£1.75 million		
2010/11	£255,000		£1.8 million		

SIPPs

In response to poor performances from pension fund managers, some retirement savers have switched their pension savings into Self Invested Personal Pension policies (SIPPs) – a form of personal pension plan which gives the investor more influence over how the funds are invested.

Personal pensions

Tax relief on investment in personal pensions is limited to the greater of £3,600 and the amount of your UK relevant earnings, but subject also to the annual allowance (£245,000 for 2009/10) in all years except the year in which you retire.

Premiums on personal pension policies and stakeholder pensions are payable net of basic rate tax relief at source, with any appropriate higher rate relief usually being claimed via the PAYE code or self assessment tax return.

See Case Study 6 for an example of this.

You will normally have selected one fund, or a spread of funds, for your pension savings. Would a switch give you more security or the scope for more growth?

Case Study 6

Graeme will earn £60,000 in 2009/10. He will invest £12,500 into his personal pension policy. He has no other income and claims only the basic personal allowance. Graeme will pay his pension provider the premium, net of basic rate tax relief, £10,000.

He is also entitled to higher rate tax relief on the gross premium, amounting to £2,500. As Graeme is an employee, we can ask HMRC to give the relief through his PAYE code.

Otherwise, we would claim in Graeme's 2010 Tax Return. Thus the net cost to Graeme of a £12,500 contribution to his pension policy is just £7,500.

Stakeholder pensions

Stakeholder pension policy providers are required to accept premiums of a minimum of £20 per month, although some will accept less.

There are a number of 'standards' providers must meet, including a cap on charges – for new policies of 1.5% per annum for the first ten years, then 1%. Additional premiums are subject to the same rules as for personal pension policies. Stakeholder premiums can be paid on behalf of another person – for example, by a grandparent for an infant grandchild.

Retirement annuities

Unlike personal pension providers, most retirement annuity providers – personal pension schemes set up before July 1988 – don't offer a 'relief at source' scheme whereby they claim back tax at the basic rate. Instead we claim the tax relief you're due through your self assessment tax return, or if you don't complete a tax return by contacting HMRC on your behalf.

The value of your home

Although they might not be suitable for everyone, there are at least two ways to make your home boost your retirement finances. The first is down-sizing – selling your current home and buying something cheaper, to release value now tied up in your property for other purposes.

If you wish to continue living in the same property, 'equity release' might be an alternative approach. Equity release might not suit everyone, and you should discuss all the implications with us and your other financial advisers.

Planning ahead

Although it's never too late to plan for your retirement, the earlier you start, the more chance you will have to accumulate the funds you will need. In the current climate, whether you choose to focus on pension savings, alternative savings and investment strategies, or a combination of both, your investments will need time to grow.

Key points to discuss with us include:

- Working out how much you need to save to create a 'retirement pot' capable of securing a comfortable retirement
- Tax-advantaged saving for your pension (and the limitations on tax relief for those with higher incomes)
- Saving in parallel to provide more readily accessible funds
- Saving in company and personal pension schemes
- Investing in a SIPP – for more control over where your savings are invested
- Investing in stakeholder pensions for yourself and other family members
- Using your business to help fund your retirement
- Freeing capital now tied up in your home to help fund your retirement

Making the Most of Savings and Investments

Investing in the future

The process of financial planning is ongoing. Even after you have made a plan, you must monitor it and adjust it as necessary to ensure that you are moving in the right direction. Many who build the framework for a plan fall short when it comes to implementing it, so it is important to be realistic.

Taking a realistic approach

This involves balancing head (financially prudent strategies) and heart (emotionally acceptable thresholds).

You need to bridge the gap between what you can expect financially and what you dream of achieving.

Try to meet your objectives by setting a number of short, medium and long-term goals and prioritise them within each category.

Saving or investing?

When deciding on your financial strategy, it is important to understand the difference between saving and investing.

If you save money on deposit with a bank or building society you will earn interest. If you buy shares or invest in a share-backed plan such as a unit trust or a life assurance policy, you will have the opportunity to earn dividend income and benefit from capital growth as the investments increase in value.

Records show that in the long term the best share investments outperform the best building society accounts in terms of the total returns they generate.

However, it is important to remember that shares can go down in value as well as up, and dividend income can fluctuate. If you choose the wrong investment you could get back less than you invested.

You will need to consider the most important factors that apply to you, as part of your investment strategy.

Tax-efficient products

Paying tax on your savings and investment earnings is obviously to be avoided if at all possible. There are a number of investment products that produce tax-free income, including some National Savings products.

National Savings

Although the products on offer from National Savings are unlikely to be at the cutting edge, a tax-free return of, say, 1.9% compound guaranteed over five years is a return equal to 3.17% for someone paying higher rate tax. Premium bonds may be quoted as offering a modest 'interest equivalent', but there is a chance of winning a tax-free million!

Investment bonds

Those with a lump sum to invest might consider an investment bond. This is a life assurance product and the norm is to draw an annual tax-free sum equal to 5% of the original investment for the life of the bond. On maturity, usually after 20 years, any surplus is taxable, but with a credit for basic rate tax. Higher rate tax might be payable, but a special relief (known as 'top slicing' relief) may be available to reduce the burden.

Bank and building society accounts

Although, as we have already suggested, history records that long-term investment in shares should outperform savings with a bank or building society, you should not overlook (a) the higher degree of certainty over investment return (spread large amounts over several banks, though) and (b) the (usually) ready access to your funds. Remember that interest is liable to income tax.

Stocks and shares

Historically, investment in stocks and shares has provided the best chance of long-term growth. On the other hand, it can be a volatile market, and should perhaps be avoided by the faint-hearted. Investment in unit trusts and investment trusts are designed to spread the risk and add an element of management for the small investor, without the expense of broker advice. Capital gains are charged to tax, as are dividends.

Some common goals in financial planning

- Accumulate a sizeable estate to pass on to your heirs
- Increase the assets going to your heirs by using various estate planning techniques, perhaps including a lifetime gifts strategy
- Tie in charitable aims with your own family goals
- Accumulate sufficient wealth to buy a business, a holiday home, etc
- Be able to retire comfortably

- Have sufficient funds and insurance cover in the event of serious illness or loss
- Develop an investment plan that may provide a hedge against market fluctuations and inflation
- Minimise taxes on income and capital

Investing in property

Property, whether commercial or residential, is generally considered a long-term investment.

'Buy to let' mortgages will generally be available to fund as much as 75% of the cost or property valuation, whichever is the lower.

Those investing in property seek a net return from rent which is greater than the interest on the loan, while the risk of the investment is weighed against the prospect of capital growth.

ISAs

Up to £7,200 can be invested in an ISA this year.

Those investing have the option to invest the full £7,200 in stocks and shares, or up to £3,600 in cash and deposits, with the balance up to the maximum in stocks and shares.

Note that these limits apply until 5 October 2009 for all investors. From 6 October 2009, for those who will be aged 50 or more, the overall limit is £10,200, of which up to £5,100 can be invested in cash and deposits. The increased limits apply to younger investors from 6 April 2010.

Investors may choose to invest up to the limit with a single plan manager who can provide both elements, or to invest with separate managers, each handling separate elements.

16 and 17-year-olds can invest up to £3,600 in a cash ISA.

Although most income accruing in an ISA does so tax-free, the tax credit on UK dividend income cannot be recovered. All investments held in ISAs are free of CGT.

There is no minimum investment period for funds invested in ISAs – withdrawals can be made at any time without loss of tax relief.

However, some plan managers offer incentives, such as better rates of interest, in return for a commitment to restrictions such as a 90-day notice period for withdrawals.

Alternative tax-efficient investments

Investments under the Enterprise Investment Scheme (EIS) and investments in Venture Capital Trusts (VCTs) are, generally, higher-risk investments. However, tax breaks aimed at encouraging new risk capital mean that EIS and VCT investments may have a place in your investment strategy.

The Enterprise Investment Scheme: Subject to various conditions, such investments attract income tax relief, limited to a maximum 20% relief on £500,000 of investment per annum. The maximum for a 2009/10 investment is 20% of £1,000,000, if £500,000 is carried back for relief in 2008/09 – speak to us for more details, as restrictions apply.

More importantly, a deferred relief is available to rollover any chargeable gain where all or part of the gain is invested in the EIS shares. In addition, although increases in the value of shares acquired under the EIS up to the £500,000 limit are not chargeable to CGT (as long as the shares are held for the required period), relief against chargeable gains or income is available for losses.

The gross value of the company must not exceed £8 million after the investment and there are many restrictions to ensure that investment is targeted at new risk capital. Companies must also have no more than 50 full-time employees (or the equivalent), and have raised less than £2 million under any of the venture capital schemes in the 12 months ending with the date of the relevant investment.

Venture Capital Trusts: With similar restrictions on the type of company into which funds can be invested, VCTs now allow 30% income tax relief on investments up to £200,000 each tax year but no CGT deferral.

Gains and dividends on VCT shares are tax exempt, although tax credits are not repayable and losses are not allowable.

Please contact us for advice on:

- Your wealth building strategy
- Investing for your retirement
- Setting and achieving savings goals
- The difference between saving and investing
- The tax consequences of different investments
- How income and gains will be taxed
- Tax shelter investments
- Tax-free investments

Tax-Efficient Estate Planning

Your estate plan

Estate planning should start early in life. If your estate is large it could be subject to inheritance tax (IHT), but even if it is small, planning and a well drafted Will can ensure your assets will go to your chosen beneficiaries. Inheritance tax is currently payable where a person's taxable estate is in excess of £325,000.

Estimate the tax on your estate	£
Value of: Your home (and contents)	
Your business ¹	
Bank/savings account(s)	
Stocks and shares	
Insurance policies	
Car	
Jewellery	
Other assets	
Total assets	
Deduct: Mortgage	
Loans	
Other debts	
Total liabilities	
Net value of assets	
Add: Gifts in last seven years ²	
Deduct	– 325,000
Taxable estate	£
Tax at 40% ³ is	£

- ¹. If you are not sure what your business is worth, we can help you value it. Most business assets currently qualify for inheritance tax reliefs.
- ². Exclude exempt gifts (eg. spouse, annual exemption)
- ³. Subject to a taper relief for gifts between 3 and 7 years before death.

A tax-efficient Will

Anyone who owns property – a home, a car, investments, business interests, retirement savings, collectables, personal belongings, etc – needs a Will. A Will allows you to choose who will distribute your property after your death, and the people to whom it will be distributed. If you have no Will, your property could be distributed according to the intestacy laws.

The more you have, the less you should leave to chance when it comes to creating an estate plan that minimises taxes.

We can help you to ensure that, through planned lifetime gifts and a tax-efficient Will, more of your wealth will pass to the people you love.

Who, what and when?

Start by answering the following questions:

Who?

Who do you want to benefit from your wealth? What do you need to provide for your spouse? Should your children share equally in your estate – does one or more have special needs? Do you wish to include grandchildren? Would you like to give to charity?

What?

Should your business pass only to those children who have become involved in the business, and should you compensate the others with assets of comparable value? Consider the implications of multiple ownership.

When?

Consider the age and maturity of your beneficiaries. Should assets be placed into a trust restricting access to income and/or capital? Or should gifts wait until your death?

Inheritance tax exemptions

You should make the best use of IHT exemptions, including:

- The £3,000 annual exemption

- Normal expenditure gifts out of after-tax income
- Gifts in consideration of marriage (up to specified limits)
- Exemption for gifts you make of up to £250 per annum to any number of persons
- Exemption for gifts between spouses, facilitating equalisation of estates. But transfers on or within seven years of death to a spouse domiciled outside the UK are exempt only to the extent of £55,000.

Married couples and civil partners

On the first death, it is often the case that the bulk of the deceased spouse's (or partner's) assets pass to the survivor.

In the past this has meant that some or all of the nil-rate band (the IHT 'exemption', £325,000 for 2009/10) was wasted unless a nil-rate band trust had been included in the Will.

Under rules which apply to second deaths after 8 October 2007, the percentage of the nil-rate band not used on the first death is added to the nil-rate band for the second death.

Case Study 7

Mark and Ben were civil partners. Mark died in May 2008, leaving £50,000 to his more distant family but the bulk of his estate to Ben. If Ben dies in 2012/13 his estate will qualify for a nil-rate band of:	
Nil-rate band on Mark's death	£312,000
Used on Mark's death	£50,000
Unused band	£262,000
Unused percentage	83.97%
Nil rate band at the time of Ben's death - say -	£400,000
Entitlement	183.97%
Nil-rate band for Ben's estate	£735,880

This ability to carry forward the nil-rate band unused on the first death means that nil-rate band trusts no longer form such an important part of Will planning, but giving your executors some discretion over the destination of part of your estate will build in some flexibility.

If you die within seven years of making substantial lifetime gifts, they will be added back into your estate and may result in a substantial IHT liability. You can take out a life assurance policy to cover this tax risk if you wish.

However you can make substantial gifts out of your taxable estate into trust now, and as a trustee retain control over the assets (this may well be subject to CGT or IHT charges).

Using gifts to reduce your liability

Business assets

Under current rules, there will be no CGT and perhaps little or no IHT to pay if you retain business property until your death. This is fine, as long as you wish to continue to hold your business interests until death, and recognise that the rules may change.

Alternatively, you may wish to hand your business over to the next generation. A gift of business property today will probably qualify for up to 100% IHT relief, and any capital gain can be held over to the new owner, so there will be no current CGT liability.

Appreciating assets

Gifts do not have to be in cash. You could save more IHT and/or CGT by gifting assets with the potential for growth in value. Gift while the asset has a lower value, and the appreciation then accrues outside your estate.

Gifts out of income

Another way to build up capital outside your own estate is to make regular gifts out of income, perhaps by way of premiums on an insurance policy written in trust for your heirs. Regular payments of this type will be exempt from IHT.

If business or agricultural property is included in the estate, it may be appropriate to leave it to someone other than your spouse; otherwise the special reliefs will be lost.

Having taken the time and trouble to make a Will and prepare an estate plan, you must review it regularly to ensure it reflects changes in family and financial circumstances as well as changes in tax law.

With regular reviews we can help you to ensure that you make the most of estate planning tax breaks.

Charitable giving

Gifts to charity can take many forms. Perhaps you are already making regular donations to one or more charities, coupled with one-off donations in response to natural disasters or televised appeals. Here we look at some of the ways you can increase the value of your gift to your chosen charities through the various forms of tax relief available.

Gift Aid: Donations made under Gift Aid are made net of tax. What that means is that for every £1 you donate, the charity can recover 28p from HMRC. Furthermore, if you are paying tax at the 40% higher rate, you can claim tax relief equal to 25p. Consequently, at a net cost to you of only 75p, the charity receives £1.28 – or, for a net cost to you of £100, your donation is worth over £170 to charity.

A payment made in the current tax year can, subject to certain deadlines, be treated for tax purposes as if it had been made in 2008/09. This may not appear important to many people, but if you paid higher rate tax in 2008/09 and do not expect to do so this year, a claim will allow you to obtain relief at last year's, higher, rate.

You must pay enough tax in the relevant year to cover the tax the charity will recover (that is, 25p for every £1 you gift – the extra 3p is a further payment from HMRC, which applies to gifts made up to 5 April 2011).

Payroll giving: You can make regular donations to charity through your payroll, if your employer agrees to operate the scheme.

The scheme operates by deducting an amount from your gross pay equal to the net cost to you of the monthly net donation you want to make.

Tax Repayments: If, when we prepare your 2009 Tax Return, we find that you have overpaid tax, you have the option to ask HMRC to send the payment on your behalf to a charity of your choice. You also have the option to (a) have the donation treated as under Gift Aid, and (b) treated as if it had been made in 2008/09.

Gifts of assets: Not all donations need to be money. You can make a gift of assets, and if the assets fall within the approved categories the gift can obtain a double tax relief. Any gain which would accrue on the gift is exempt from CGT, and you are also entitled to income tax relief at up to 40% on the value of your donation.

Single people

Single people might not have given much thought to estate planning, but you should make a Will to set out your preferred funeral arrangements, how you want your estate to devolve on your death, and who will have responsibility for it.

Your estate might pass to your parents or your siblings, but would you perhaps prefer to leave your wealth to your nieces and nephews – with the bonus of potential IHT savings through 'generation skipping'? A Will is also vital for anyone who, although legally 'single', has a partner they wish to benefit from their estate on their death.

Remarriage

Parents face a different set of challenges in 'second' marriages, with children from former and current marriages.

If both partners are wealthy, you might want to direct more of your own wealth to children of your first marriage. If your partner is not wealthy, you might wish to protect him or her by either a direct bequest or a life interest trust (allowing your assets to devolve on their death according to your wishes). Should younger children receive a bigger share than grown up children, already making their own way in the world, and

should your partner's children from the previous marriage benefit equally with your own?

If you are concerned about your former spouse gaining control of your wealth, consider creating a trust to ensure maximum flexibility in the hands of people you choose.

You need to plan to ensure that your partner is properly provided for. Look at your Will, pension provisions, life insurance and joint tenancies.

Generation skipping

Your children may be grown up and financially secure. If your assets pass to them, you will be adding to their estate, and to the IHT which will be charged on their deaths. Instead, consider leaving something to your grandchildren.

Estate planning essentials

Estate plans can quickly become out of date. Revisions could be due if any of these events have occurred since you last updated your estate plan:

- The birth of a child or grandchild
- The death of your spouse, another beneficiary, your executor or your children's guardian
- Marriages or divorces in the family
- A substantial increase or decrease in the value of your estate
- The formation, purchase or sale of a business
- Retirement
- Changes in tax law.

The importance of a valid Will

A properly drawn Will is a powerful planning tool, which enables you to do the following:

- Protect your family by making provisions to meet their future financial needs
- Minimise taxes that might reduce the size of your estate
- Name an experienced executor who is capable of ensuring that your wishes are carried out

- Name a trusted guardian for your children
- Provide for any special needs of specific family members
- Include gifts to charity
- Establish trusts to manage the deferral of the inheritance of any beneficiaries
- Secure the peace of mind of knowing that your family and other heirs will receive according to your express wishes.

Wills can also be re-written by others within the two years after your death, in the event that some changes are agreed by all concerned to be appropriate.

Please contact us for advice on:

- Lifetime gifts of assets, including business interests
- Gifts to charity, and minimising tax on gifts and inheritances
- Disposition of your assets on death
- Using trusts in lifetime and estate tax planning
- Your choice of an executor
- Inheritance tax reduction planning and life assurance to cover any liabilities
- Naming a guardian for your children
- How your business interests should devolve if you die or become incapacitated

Key Planning Points

Use this page to make a note of any key points arising from this guide, and any action you may wish to consider, and then contact us for further advice and assistance.

Notes		
	To follow up √	Action agreed √

The 2009/10 Tax and Financial Strategies guide is for general information only. No responsibility is taken for any action taken or refrained from in consequence of its contents.

Figures and regulations are subject to change throughout the course of the tax year. Contact our office for the latest rates and information.

We can help you with a wide range of tax and financial planning areas. You should always seek professional advice before acting.

2009/10 Tax Calendar

April 2009

- 5 Last day of 2008/09 tax year.
Deadline for 2008/09 ISAs.
Last day to make disposals using the 2008/09 CGT exemption.
Last date for contracting back into the State Second Pension for 2008/09.
- 14 Due date for income tax for the CT61 period to 31 March 2009.
- 19/22 Quarter 4 2008/09 PAYE remittance due.
- 20 Interest will begin to accrue on unpaid PAYE/NI for 2008/09.
- 30 Normal annual adjustment for VAT partial exemption calculations (monthly returns).

May 2009

- 3 Quarterly submission date of P46 (Car) (for employees whose car and/or fuel benefit has changed in quarter to 5 April).
- 19 Last day for filing forms P14, P35, P38, and P38A – 2008/09 PAYE returns, without incurring penalties.
- 31 Last day to issue 2008/09 P60s to employees.

June 2009

- 30 End of CT61 quarterly period.
Last day for UK businesses to reclaim EC VAT chargeable in 2008.
Annual adjustment for VAT partial exemption calculations (March VAT year end).

July 2009

- 6 Deadline for submission of Form 42 (transactions in shares and securities).
Deadline for submission of EMI40 (EMI Annual Return).
File Taxed Award Scheme Returns, file P11Ds, P11D(b)s and P9Ds. Issue copies of P11Ds or P9Ds to employees.
- 14 Due date for income tax for the CT61 period to 30 June 2009.
- 19/22 Quarter 1 2009/10 PAYE remittance due.
Final date for payment of 2008/09 Class 1A NICs.
- 31 Second self assessment payment on account for 2008/09.
Annual adjustment for VAT partial exemption calculations (April VAT year end).
Liability to 2nd £100 penalty arises for 2008 Tax Return still not filed.
5% surcharge on any tax unpaid for 2007/08.
Deadline for tax credit Annual Declaration (if estimated, final figures required by 31 January 2010).

August 2009

- 2 Quarterly submission date of P46 (Car) for quarter to 5 July.
- 31 Annual adjustment for VAT partial exemption calculations (May VAT year end).

September 2009

- 30 End of CT61 quarterly period.

October 2009

- 1 Due date for payment of Corporation Tax for period ended 31 December 2008.
- 5 Individuals/trustees must notify HMRC of new sources of income/chargeability in 2008/09 if a Tax Return has not been received.
- 14 Due date for income tax for the CT61 quarter to 30 September 2009.
- 19/22 Quarter 2 2009/10 PAYE remittance due.

31 Last day to file 2009 paper Tax Return.

November 2009

1 Please ensure you are retaining your documents for the 2010 Tax Return.

2 Quarterly submission date of P46 (Car) for quarter to 5 October.

December 2009

30 Last day to file your 2009 Tax Return electronically if you wish to have a 2008/09 balancing payment of less than £2,000 collected through your 2010/11 PAYE code.

31 Last day for non-EC traders to reclaim recoverable UK VAT suffered in the year to 30 June 2009.
End of relevant year for taxable distance supplies to UK for VAT registration purposes.
End of relevant year for cross-border acquisitions of taxable goods in the UK for VAT registration purposes.
End of CT61 quarterly period.
Filing date for Corporation Tax Return Form CT600 for period ended 31 December 2008.

January 2010

1 Due date for payment of Corporation Tax for period ended 31 March 2009.

Standard rate VAT reverts to 17.5%.

14 Due date for income tax for the CT61 quarter to 31 December 2009.

19/22 Quarter 3 2009/10 PAYE remittance due.

31 First self assessment payment on account for 2009/10.
Capital gains tax payment for 2008/09.
Balancing payment – 2008/09 income tax/Class 4 NICs.
Last day to renew 2009/10 tax credits.
Deadline for amending 2007/08 Tax Return.
Last day to file the 2009 Tax Return online.

February 2010

1 £100 penalty if 2009 Tax Return not yet filed. Additional penalties may apply for further delay. Interest starts to accrue on 2008/09 tax not yet paid.

2 Quarterly submission date of P46 (Car) for quarter to 5 January.

14 Last date (for practical purposes) to request NIC deferment for 2009/10.

28 Last day to pay any balance of 2008/09 tax and Class 4 NIC to avoid an automatic 5% surcharge.

March 2010

- 31 End of corporation tax financial year.
End of CT61 quarterly period.
Filing date for Corporation Tax Return Form CT600 for period ended 31
March 2009.