



Howsons

Chartered Accountants

Personal Tax

Taxation and the Family

There's so many different ways that you could end up being liable for tax. If you plan effectively and utilise all legislation to its maximum advantage, it could alleviate the tax burden on you or your family at a later date.

We have highlighted the main areas whereby advance planning could help to minimise the overall tax liability for you and your family. This will include married couples, children and the impact of a marriage breakdown. It is important that you always seek professional advice on issues pertaining to your individual circumstances.

Married Couples

Married couples and those in a civil partnership* are taxed individually on their income and capital gains and this can bring about valuable tax planning opportunities. *Since December 2005, the same tax treatment applies to same sex couples who have entered into a civil partnership under the Civil Partnership Act.

Income tax allowances and tax breaks

Everyone is entitled to a basic personal allowance, but this allowance cannot be transferred between you and your spouse/civil partner. A married couple's allowance is available if either your spouse/civil partner was born before 6 April 1935. For marriages prior to 5 December 2005 this is automatically given to the husband in priority; for marriages and civil partnerships entered into after that date the allowance is automatically given to the higher earner.

It is possible (by election) to transfer all, half or just the unused allowances to the wife / lower earner as applicable. Couples married before 5 December 2005 may also jointly elect to be treated as if they were married after that date for purposes of applying the relief.

Joint Ownership of Assets

To ensure that personal allowances are fully utilised, and any higher rate tax liabilities are minimised, married couples, civil partners and indeed those in common law relationships should try to arrange the joint ownership of income-producing assets to equalise income streams.

For married couples and those in civil partnerships income from jointly owned assets is automatically assessed on a 50:50 basis unless an election is made to alter the split prior to the start of the tax year, for those in common law relationships actual entitlement to the income determines how much is assessed in each case i.e. an election is not required.

Married couples are taxed on dividends from jointly owned shares in *close* companies according to their actual ownership of the shares. Close companies are broadly those owned by the directors or five or fewer people.

We can advise on the most appropriate strategy for jointly owned assets so that tax liabilities are minimised.

Capital Gains Tax (CGT)

Each spouse, civil partner or partner in common law relationship is entitled to an individual annual exemption against capital gains on the disposal or other realisation of value from assets which they beneficially own. For 2010/11 this is £10,100. Gains made before 23 June 2010 which are above this level are charged to 18% tax. Gains made on or after 23 June 2010 is treated as an individual's top slice of income and charged at 18% or 28% or a combination of both rates.

Further details of how CGT operates are outlined in the factsheet Capital Gains Tax.

Inheritance Tax (IHT)

When a person dies, or makes a chargeable lifetime transfer their estate or the value transferred as appropriate, if above a predetermined threshold (known as the nil rate band), is subject to Inheritance Tax. For 2010/11 the first £325,000 is not chargeable and the rate of inheritance tax payable above this is 40% in the case of transfer on death and 20% on chargeable lifetime transfers.

Lifetime gifts made by the person before they died may also be subject to inheritance tax, unless they were gifted more than seven years prior to their death.

Transfers of property between spouses or civil partners is generally exempt from IHT and new rules have been introduced which allow any nil-rate band unused on the first death to be used when the surviving spouse or civil partner dies. The transfer of the unused nil-rate band from a deceased spouse or civil partner, irrelevant of the date of death, may be made to the estate of their surviving spouse or civil partner who dies on or after 9 October 2007.

The amount of nil-rate band available will be based on the proportion of the nil-rate band that was unused when the first spouse or civil partner died. Key documentary evidence will be required for a claim, so do get in touch to discuss the information needed.

Exemptions:

- Small gifts to individuals not exceeding £250 (in total per tax year).
- Gifts in consideration of marriage or civil partnerships are exempt up to £5,000 if made by a parent, smaller exemptions are available for remoter gifts.
- An annual exempt amount of £3,000 per donor is also available, this can be carried forward for one year, after which it is lost.
- Gifts made out of income, which are typical and habitual and do not impact on the standard of living of the donor are exempt. It must be proven that these are consistent payments.

Everyone's personal circumstances are different, so please do get in touch.

Children

It may be possible to save tax by transferring income producing assets to a child to take advantage of their personal allowance. This cannot be done by the parent if the annual income is in excess of £100 as the income will continue to be taxed on the parent. Transfers of income producing assets by others (e.g. grandparents) will be effective.

Child Tax Credit: A child tax credit is available to many taxpayers. The basic element is £545 per annum, which rises to £1,090 in the year a child is born. You may receive less than this if your family income exceeds £50,000. Consequently, you may receive more than this if your family income is somewhat less than £50,000 due to other elements of the child and working tax credit and/or if you pay qualifying childcare costs.

Marriage and Civil Partnership

Marriage and civil partnership breakdown often involves the transfer of assets between spouses / civil partners. Unless you carefully plan the timing of such transfers,

there could be significant consequence in terms of Capital Gains Tax. Please consult us in the event that you think this may affect you.

How we can help

We will ensure that your income and capital gains declarations are correct and that all expenses and claims have been offset against tax. We will ensure that you only pay the income tax and capital gains tax that is correctly due. Specific areas Howsons can help;

- Pension contribution relief.
- Tax implications of pension income, savings and investment income, employment and benefits in kind income.
- Tax implications of self employment, property rentals, and capital asset disposals.
- Ensure self assessment tax returns are submitted on time.
- Ensure income tax payments are submitted on time.

We can also help with;

- Overseas tax issues.
- Self assessment tax return completion.
- Checking HMRC tax calculations; dealing with HMRC paperwork.
- Ensuring income tax bands have been efficiently utilised.
- Dealing directly with HMRC officer with your tax issues.
- Personal tax planning.
- Tax efficient structuring of your income.

Call our Tax Specialists for more help

We have offices throughout Staffordshire. Our Tax specialists are:

Stoke Office – 01782 848838

Chris Parry, Vicky Hulse

Leek Office – 01538 393600

Suzanne Preston, Nick Armstrong, Joy Edwards

Burslem Office – 01782 834775

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(N.B. When addressing Leek Office, please replace .com with .net)

We believe the information contained within this fact sheet to be correct at time of going to press, but we cannot accept any responsibility for any damage or loss occasioned to any person as a result of action or refraining from action as a result of any item herein. This information sheet provides outline information only; you should always seek specific professional advice. April 2011.

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