



Howsons

Chartered Accountants

Year End Tax Planning – April 2010

Planning for the end of the tax year is crucial if you want to minimise your tax exposure and make the most of the allowances and opportunities available. Here's a selection of strategies that may help you prepare ahead of 5th April:

Have you maximised your ISA investments this year? Make the most of your tax free Individual Savings Allowance (ISA). Remember, since 6 October 2009 those aged 50 and over can invest up to £10,200 (£5,100 in cash). All other savers can invest £7,200 (£3,600 in cash).

Have you maximised your pension contributions? The limits on pension investment eligible for relief are very generous. The key is that contributions to registered schemes are only tax deductible when paid.

Have you utilised your capital gains tax personal exemption of £10,100? Making disposals in this tax year can be offset against gains.

Maximise inheritance tax opportunities: Each person can give £250 a year to any number of recipients as well as £3,000 annually over and above that. You can also make regular gifts out of income (not capital) that will be exempt for inheritance tax purposes.

Income Tax: If you are married or in a Civil Partnership and one partner / spouse has a much lower level of earned income, then it's possible to transfer income producing assets to them. Income tax is due to rise to 50% next year, it could be a significant saving.

Private Fuel allowance: If your employer still pays for the private fuel used in your company car you can avoid the car fuel benefit charge if you repay your employer before the end of the tax year for private fuel used. You'll have to do some number crunching to see whether the tax benefit in kind is expensive and the private fuel refund being less.

In Business?

Time to revalue stock? If your balance sheet shows that you are carrying stock at cost and it's now worth less than cost, you could revalue it and reduce the stock to its current value. This will reduce your trading profit in the current year (or increase your losses) and will also reduce your tax bill or increase any loss relief carry backs.

The best time to purchase new vehicles and equipment? If you're about to invest up to £50,000, you need to work out when the most effective purchase date will be – should you commit to the expenditure before the end of the tax year or afterwards? Be aware that if your trading year end is 31 March, this could make a significant difference. It may also help you to avoid wasting your personal tax allowances and maximising the benefits of loss relief carry back.

Are you selling? If you're considering selling a business or business property and this will create a chargeable gain for CGT purposes you might be advised to delay exchanging contracts until after 5 April 2010. Any tax payable on gains made on or after 6 April 2010 won't be due for payment until 31 January 2012. Tax payable on gains on/before 5 April 2010 will need to be paid 31 January 2011. CGT rates are at present 18% with Entrepreneurs Relief at 10% on sales of any qualifying business assets (up to a lifetime maximum of £1million chargeable gains). There's been no mention of increases to the 18% rate, but there's the possibility that rates may be increased in the 2010 Budget.

Bring forward expenditure Can you bring forward any revenue expenditure, equipment repairs, redecoration; all of which will bring about a reduction in profits or increase losses for carry back?

Reduce the impact of the 50% tax rate: From April 2010 a new top rate income tax is proposed – 50% for those earning in excess of £150,000. If you think that you may be affected by the change, consider accelerating income into the 2009/10 tax year by paying dividends / bonuses earlier to help mitigate its impact. A self-employed business could change their accounting date to shift profits into 2009/10.

Extract Profit – tax efficiently: There are numerous ways of extracting profit from your company, and there are some alternative options that could be considered. These might include using tax-free allowances such as mileage payments and tax and national insurance-free childcare vouchers for parents of young children. Employer pension contributions can also be a tax-efficient means of extracting profit.

Gift Aid Giving: If you are a higher rate tax payer, a gift to charity before 6 April 2010 will accelerate tax relief.

This is by no means an exhaustive list of opportunities; if you'd like to discuss further, please contact us as soon as possible so we have plenty of time to implement the best strategy for you!

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Normal Minimum Pension age to rise to 55 from April 2010

As part of the Government's pension reforms announced back in 2003, the normal minimum pension age will rise from 50 to 55 from 6 April 2010. After that date, people will normally only be allowed to start receiving pension payments from an occupational pension or a personal pension scheme when they are 55 or older. Exceptions are where they have severe ill health or can start their pensions at a lower age that is protected by the pension tax law.

If you are aged between 50 and 55 and already receiving pension payments, this change to the normal minimum pension age will not affect those payments.

Tax Repayment Deadlines

HMRC has published deadlines for making claims for a repayment of tax. If you have any outstanding claims that need sorting, please resolve them quickly!

2004/05 – 31 March 2010

2005/06 – 5 April 2010

2006/07 – 5 April 2011

2007/08 – 5 April 2012

2008/09 – 5 April 2013

Changes to Statutory Payments 2010-11

The 2010-11 rates have been announced (subject to parliamentary approval).

Statutory Sick Pay	£79.15 per week (this remains unchanged from 2009/10)
Statutory Maternity Pay	6 weeks at 90% of employee's average weekly earnings; followed by a further 33 weeks at £124.88 per week or 90% of average weekly earnings (whichever is lower).
Statutory Paternity Pay	1 or 2 weeks at £124.88 per week or 90% of average weekly earnings (whichever is lower). If they opt to take 2 weeks leave, they must be taken together.
Statutory Adoption Pay	39 weeks at £124.88 per week or 90% of weekly earnings (whichever is lower).

Will you have to file your VAT Return online?

From April 2010, VAT registered businesses with a turnover in excess of £100,000 **must** file VAT Returns online.

We have the facilities to assist you with this so please call your local Howsons Office for a quote.

Filing Payroll Forms Online

Larger employers (those with 50 or more employees) already have to file forms P45 and P46 online. From April 2011, all employers will have to file these starter and leaver forms electronically.

PAYE / NIC New Late Payment Penalties from 6 April 2010

All employers will be subject to new late payment penalties from May 2010. This includes payments of:

- Tax
- National Insurance Contributions (Class 1, 1a)
- Construction Industry Scheme deductions
- Student loan deductions

The penalties payable will be calculated as follows on the amount of the late monthly or quarterly payment:

- First late payment in a tax year – no penalty
- Between 2 and 4 late payments in a tax year¹ - 1%
- Between 5 and 7 late payments in a tax year¹ - 2% ¹ Ignoring the first late payment in the year
- Between 8 and 10 late payments in a tax year¹ - 3%

HMRC has the powers to charge penalties at 5% if an amount is outstanding for 6 months and again at 12 months. If you can argue you have a reasonable excuse for being late in your payment, HMRC may waive the penalty. A reasonable excuse is defined as something;

- Unusual
- That you could not reasonably have known would happen, and which
- That you could not do anything to prevent

Extra National Insurance Burden Ahead

A significant announcement in the Pre-Budget Report in December 2009 was of a further increase in the National Insurance Contributions (NIC) that will take effect from 6 April 2011.

With a couple of minor exceptions, the NIC rates and limits for 2010/11 have been frozen at the 2009/10 rates and a proposed increase will take effect from April 2011. An extra 1% will be added to the rates applicable to employers, employees and the self-employed. The main Class 1 rate (employee) will be 12% and the Class 4 rate will be 9%. The employer rate will also increase to 13.8%. The additional rate of Class 1 and 4 contributions, payable on pay and profits currently in excess of £43,875, will also increase from the current 1% to 2%.

The Government has announced that it will protect those at the lower end of the earnings scale by an increase in the point at which contributions become payable. It is therefore expected that employees paying the standard employee rate and earning below £20,000 will pay less NIC overall as a result of the change.

The Government has previously announced that NIC rates would increase by 0.5% from April 2011. This further increase of 0.5% will represent a significant increase in costs, particularly for employers.