



30 WAYS TO REDUCE YOUR TAX BILL



Sensible tax planning is an essential tool in making the most of your finances and helping your business's profitability.

Keeping your tax bill to a minimum is not a matter of aggressive or complex tax schemes, but rather of identifying which of the many tax reliefs and allowances specifically granted by law are available to you.

From ISAs to capital allowances, this guide contains 30 essential ways of saving tax – for you, your family and your business. Contact us to discuss how we can help you take advantage of them.

PERSONAL TAX & SAVINGS

1. Check your PAYE tax code

Many people can go for years inadvertently paying the wrong amount of tax because their tax code is incorrect. You can help to avoid this by checking the series of numbers and letters in your tax code to ascertain whether the correct code is being applied.

For more details, see www.hmrc.gov.uk/incometax/codes-basics.htm or contact us for advice.

2. Maximise personal allowances...

Ensure that you are making the most of the tax-free personal allowance (PA), which for 2012/13 is £8,105 for those aged under 65, or the age-related allowances which are worth up to £10,660, maximum income £25,400. If your spouse or partner has little or no income, consider transferring income (or income-producing assets) to them to ensure that they are able to make full use of their PA.

Care should be taken to avoid falling foul of the settlements legislation governing 'income shifting'. Any transfer must be an outright gift with 'no strings attached'. One useful planning situation can arise where there is a transfer into joint names as tenants in common. In these circumstances, giving your spouse as little as 1% interest can mean that 50% of the income is automatically shifted for tax purposes.

Please contact us before taking action.

3. ...and minimise the income tax rate

Similarly, it is costly for one spouse or civil partner to pay income tax at 40% or even 50% while the other pays tax at only 20%. Where one spouse or civil partner has a lower marginal tax rate, consider transferring income-producing investments into his or her name. This may include shares, let property, bank deposits, etc (but see left).

4. Preserve allowances by donating to charity

If you are 65 or over you may be entitled to an increased PA, depending on your income. For 2012/13 age-related allowances are scaled back if net income (adjusted to take account of certain allowances and reliefs) exceeds £25,400. Making donations to charity through Gift Aid can reduce your taxable income to below the threshold at which you would start to lose out. This is also important for individuals with incomes just above £100,000, as the PA is gradually reduced by £1 for every £2 of income over this figure.

5. Pay into a pension scheme

Investing in a company or personal pension scheme will afford tax breaks on your personal pension contributions. For 'additional rate' taxpayers, maximising pension contributions (within limits – see below) during 2012/13 will allow you to obtain relief at the rate of 50% (45% from April 2013). Pension contributions can be made at up to 100% of relevant earnings, subject to the annual allowance of £50,000, and unused allowances may be carried forward for up to three years.



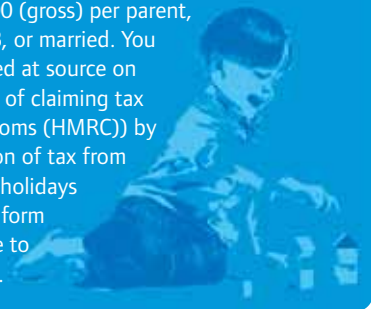
6. Consider a salary sacrifice arrangement

Sacrificing a proportion of your salary in return for a non-cash benefit can reduce your national insurance contributions (NICs) bill. In some cases salary sacrifice arrangements can benefit both employer and employee, for example when part of an employee's remuneration shifts from cash (on which PAYE tax and NICs are due) to non-cash benefits that are wholly or partially exempt from tax and NICs.

This may affect your entitlement to some benefits – please contact us for details.

7. Don't forget the children

Every child has their own PA, so income of up to £8,105 will escape tax this year. Income generated by parental gifts is subject to a limit of £100 (gross) per parent, unless the child has reached 18, or married. You can prevent children being taxed at source on their savings (saving the hassle of claiming tax back from HM Revenue & Customs (HMRC)) by completing form R85. Deduction of tax from pay earned by students during holidays may be avoided by completing form P38S, although this form is due to be abolished from 6 April 2013.



8. Make the most of tax-free parental gifts

Consider investing parental gifts to produce tax-free income, or accumulate income, or in a cash or stocks and shares Junior ISA (JISA). The £100 limit does not apply to gifts into Child Trust Funds, JISAs or National Savings Children's Bonus Bonds.

9. Use your capital gains tax (CGT) allowance

Make the most of your CGT exemption limit each year (£10,600 in 2012/13). It may be possible to transfer assets to a spouse or civil partner or hold them in joint names prior to any sale to make full use of exemptions. Individuals with a particularly large gain may want to realise it gradually to take full advantage of more than one tax year's allowance. However, you should only consider spreading a disposal of, for example, shares if you will not be putting your gain at risk in the meantime.

10. Invest in an ISA

Up to £11,280 can be invested in an ISA this tax year, of which up to £5,640 can be invested in cash. Most income accrues tax-free, although the tax credit on UK dividend income cannot be recovered. All investments held in ISAs are free of CGT. And don't forget, the new JISA, for those aged under 18 who do not have a Child Trust Fund account, allows investment of up to £3,600 in 2012/13. 16-17 year olds can also invest up to £5,640 in an adult cash ISA, even if they already have a JISA.

TAX AND PROPERTY

11. Claim landlord expenses

If you rent out property you can deduct a range of expenses from the rental income. These include: water rates; council tax; gas and electricity; maintenance and repairs to the property (but not improvements, which may instead score for relief against any future capital gain); landlord insurance; costs of services, including the wages of gardeners and cleaners; letting agency and accountancy fees; ground rents and service charges; and other direct costs such as phone calls, stationery and advertising for new tenants. You could also claim a 10% wear and tear allowance if you are letting a residential property fully furnished.

12. Claim special energy-saving incentives

If you are a landlord and make energy-saving improvements to your property, you could claim the Landlord's Energy Saving Allowance. This affords a deduction of up to £1,500 per property, each year, and is available to landlords installing loft insulation, floor insulation, cavity and solid wall insulation, hot water system insulation and draught proofing up to 5 April 2015.

Note that in effect you are claiming an immediate income tax deduction (worth up to 50%) instead of an eventual capital gains tax deduction (worth a maximum of 28%).

13. Rent out a room

Under the 'rent a room' scheme, income from letting furnished rooms in your main residence is exempt from tax if the gross annual rent does not exceed £4,250 (£2,125 if you share the income). If you are letting to lodgers who live as part of the family, there will be no loss of capital gains exemption. Otherwise, there may be some restriction.

A lodger can occupy a single room or an entire floor of your home. However, the scheme doesn't apply if your home is converted into separate flats that you rent out, or if you let unfurnished accommodation in your home.



14. Review your business structure

The structure of your business can have a significant impact on your annual tax bills. While in the early years of a business it may be advisable to operate as a sole trader or partnership, as profits increase it may be more beneficial to form a limited company or put in place a hybrid structure (e.g. have a limited company as a partner). Please talk to us about the best option for your business.

15. Don't forget to reclaim input VAT on petrol

Do you reimburse employees who use their own vehicles and pay for their own fuel at the HMRC approved mileage rates? If so, then don't forget to reclaim the VAT applicable to the deemed fuel element of the mileage rate. You will need to ensure each employee submits a valid VAT receipt in support of the claim.

16. Review your capital expenditure

Review your capital expenditure to maximise claims for capital allowances. The majority of businesses are able to claim a 100% Annual Investment Allowance on the first £25,000 of expenditure on most types of plant and machinery (except cars).

17. Consider the timing of expenses

Delaying expenditure to save money or aid cash flow might not be the most tax-efficient approach. By incurring expenses shortly before the year end rather than after, relief for those expenses is obtained 12 months earlier. With the main rate of corporation tax and top rate of income tax set to fall over the coming years, incurring expenses earlier rather than later may provide relief at a higher rate.

18. Make the most of losses

You may be able to turn your losses around by carrying them forward to set against future profits, or setting them against other income for immediate relief. We can review loss relief claims to ensure that they are as tax-efficient as possible – please contact us if you wish to discuss this further.

19. Utilise tax reliefs on capital gains

Companies pay corporation tax on chargeable gains. Although companies do not have the benefit of an annual allowance exemption, indexation relief provides some protection against inflationary gains. Making the most of tax reliefs on capital gains, such as roll-over relief for business assets, can defer the corporation tax bill.

20. Go for green transport

Switching to a 'green' company car with low CO₂ emissions can reduce your tax liability, as such vehicles are taxed at a lower percentage rate. For cars which do not produce CO₂ engine emissions under any circumstances when driven ('zero emission cars', including those powered solely by electricity), the emissions-based percentage reduces to zero thereby reducing the car benefit charge to nil.



21. Consider a company van

Have you considered a company van? The taxable benefit for the unrestricted use of company vans is £3,000 plus a further £550 of taxable benefit if fuel is provided by the employer for private travel. A 'van' for this purpose includes some extended cab pick-ups, complete with off-road styling, air conditioning and leather upholstery!

22. Write a Will and keep it up-to-date

A well-drafted Will can ensure that the wealth you have built up during your lifetime benefits the right people on your death – and it can also be structured to save tax. However, you must review it regularly to ensure it reflects changes in family and financial circumstances as well as changes in tax law.

We can help to reduce your tax liability and secure your family's long-term financial future, through a tax-efficient Will. Please contact us for further assistance.

23. Utilise inheritance tax (IHT) exemptions

You should make the best use of IHT allowances, including the annual exemption, which allows you to give away cash or assets up to a total value of £3,000 a year without incurring any taxes. Any regular gifts you make out of your after-tax income, not including your capital, are also exempt from IHT (providing you have enough income left after making the gifts to maintain your normal lifestyle).

Most gifts made during your lifetime will be entirely exempt from IHT if you live for seven years after making the gift. These sorts of gifts are known as 'Potentially Exempt Transfers' (PETs).

Taxable gifts made up to seven years before death are added back into your estate and tax is calculated on the inclusive value. But to the extent that such lifetime gifts made between three and seven years before death exceed the tax threshold, the associated tax is discounted by up to 80%.

Don't forget, small gifts of up to £250 a person per tax year are exempt, while parents can each give cash or gifts worth up to £5,000 to their children as a wedding/civil partnership gift (grandparents can give up to £2,500 and others can give up to £1,000).

24. Leave a gift to charity

The full rate of IHT is payable at 40% where your taxable estate value is in excess of £325,000. However, from April 2012 gifts made to one or more qualifying charities can reduce the rate of IHT payable on your estate.

If you plan to give at least 10% of your net estate to charity, the rate of tax levied on some or all of the rest may be reduced to 36%.



25. Skip a generation

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, thereby forcing the IHT charge to 'skip' a generation.

26. Claim a partner's unused IHT allowance

Since October 2007 married couples and civil partners can boost their IHT-free allowance by claiming a proportion of any 'nil-rate band' their deceased partner has not used. This can increase the IHT threshold of the second partner from £325,000 to a maximum of £650,000 for 2012/13.

RETIREMENT PLANNING

27. Check your state pension entitlement

Whatever your pension arrangements, planning to maximise the amount you will receive in retirement is crucial. As a first step, check that your NICs are up to date and, if necessary, pay voluntary NICs to ensure that you receive the full state pension.

You can check whether you are likely to have a gap in your NICs record by requesting information about your State Pension forecast from the Future Pension Centre: www.direct.gov.uk/en/DI1/Directories/DG_180024.

28. Carry forward unused allowances

Where pension savings in any of the last three years' pension input periods are less than the annual allowance of £50,000 (2012/13), it may be possible to carry forward the unused relief from that year.

But note that where premiums in one year are less than the annual allowance, and this is followed by premiums exceeding the annual allowance in a later year, the unused relief carrying forward is reduced. However, under transitional rules, if 2009/10 and/or 2010/11 were years in which contributions in excess of £50,000 were made, that excess is ignored.

The rules are complex so please talk to us before taking action.

29. Stop paying national insurance

If you are planning to defer your retirement and continue working, you no longer need to pay NICs when you reach the State Pension Age (SPA), but you will need to show your employer proof of age. If you are self-employed, you stop paying Class 2 contributions as soon as you reach SPA and Class 4 contributions from the start of the tax year after the one in which you reach SPA. You must inform the Pensions Service if you intend to defer your state pension.

30. Shop around for your annuity

According to the Association of British Insurers, over half of all pension investors simply purchase the default annuity deal they are offered by their current provider. However, there is research to suggest that shopping around for a better deal could increase your pension income significantly.

Before making any decisions, you should talk to an expert about the alternative options that may be available to you.

My tax planning checklist.

- Ensure that tax rates are as low as possible across my family
- Check my PAYE code and understand the tax rates and allowances applicable to me
- Utilise my ISA allowance and consider other tax-privileged saving opportunities
- Review my pension arrangements
- Claim capital allowances for expenditure on business equipment
- Plan to minimise the tax take, including VAT and capital gains tax
- Review my estate plan and my Will
- Put in place a tax-efficient gifting strategy
- Discuss with my accountant how to minimise the cost of the company car
- Contact my accountant to discuss these and other strategies to help minimise my tax liability

How we can help

This guide is merely a starting point, designed to highlight key tax planning opportunities. As your accountants, there are many ways in which we can help to minimise the tax burden.

Contact us for more advice about:

- Minimising your business taxes
- Making the most of capital allowances
- Reducing company car costs
- Improving your financial position by accelerating expenditure into the current year, or deferring income into the next.

We can also help you to:

- Make the most of personal allowances
- Save money tax-efficiently
- Review your pension arrangements
- Reduce the inheritance tax on your estate.

We hope you find this guide useful – please contact us for more information and advice.