



BUSINESS UPDATE

March 2012

THE 5 APRIL YEAR END

PLAN TO SAVE TAX NOW!

WITH THE END OF THE TAX YEAR FAST APPROACHING, NOW IS A GOOD TIME TO REVIEW YOUR BUSINESS AND PERSONAL FINANCES TO ENSURE THAT THEY ARE AS TAX EFFICIENT AS POSSIBLE. IN THIS GUIDE WE CONSIDER SOME OF THE PLANNING OPTIONS AVAILABLE BEFORE 6 APRIL 2012, WHILST ALSO LOOKING AHEAD TO SOME OF THE BUSINESS AND TAX CHANGES PLANNED FOR 2012/13.

Don't waste personal allowances

The 'tax free' personal allowance (PA) for 2011/12 is £7,475, so you should consider taking steps now to ensure that it is fully utilised.

If your spouse or partner has little or no income, consider transferring income to them to ensure that personal allowances are being utilised. Similarly, it is costly for one spouse or civil partner to be paying tax at 40% or even 50% while the other pays tax at only 20%. Equalising income where possible ensures that you will both pay tax at the lowest possible rate, thereby reducing the overall combined tax bill.

The PA is gradually withdrawn where adjusted net income exceeds £100,000 (being reduced by £1 for every £2 of income over £100,000) and is lost completely once income reaches £114,950, which means a 60% effective tax rate for income between these amounts. Consider reducing income to below £100,000, for example by making pension contributions, donating to charity or transferring income producing assets to a spouse or civil partner. Other strategies can include delaying bonus or dividend payments – please talk to us about the implications of this.

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Looking Ahead: Personal Allowances

The PA for those aged under 65 increases to £8,105 from 6 April 2012. However, the advantage to higher rate taxpayers will be countered by a lowering of the higher rate threshold, to £34,370.

In addition, the PA for those aged 65 to 74 will rise from £9,940 to £10,500 for 2012/13, while the PA for individuals aged 75 and over will increase from £10,090 to £10,660.

Review your capital expenditure

The majority of businesses are able to claim a 100% Annual Investment Allowance (AIA) on the first £100,000 of expenditure on most types of plant and machinery (except cars). This is quite a high ceiling but, nevertheless, it is worth considering if your business is incurring substantial amounts of qualifying expenditure: spreading the cost over two years may maximise tax relief (but see 'Looking Ahead', below).

In addition to the AIA, there are specific 100% allowances available for some investments, including energy saving equipment and low emissions cars – please contact us for details.

In general, a purchase made just before the end of the current accounting year will mean the allowances will usually be available a year earlier than if the purchase was made just after the year end. In the same way, the disposal of an asset may trigger an earlier claim for relief or even an additional charge to tax.

Looking Ahead: Capital Allowances

From April 2012 there will be a reduction in the amount of expenditure on plant and machinery which qualifies for a 100% year one write off (via the AIA), from £100,000 to just £25,000.

In addition, for chargeable periods ending on or after 1 April 2012 (for businesses within the charge to corporation tax) and on or after 6 April 2012 (for businesses within the charge to income tax), the rates of writing down allowances will be reduced from 20% to 18% (main rate pool) and from 10% to 8% (special rate pool).

Note: for businesses with years straddling 31 March/5 April, there will be a transitional AIA and writing down allowance.

Enterprise Zones: As announced in the Autumn Statement, the Enterprise Zones in assisted areas will qualify for enhanced capital allowances. These allowances will be available from 1 April 2012 to 31 March 2017.

Consider tax efficient savings & investments

ISAs: You have until 5 April 2012 to make your 2011/12 ISA investment. For all adult savers the maximum investment in 2011/12 is £10,680, of which up to £5,340 can be invested in cash. 16-17 year olds can invest up to £5,340 only in a cash ISA.

The new Junior ISA, for those aged under 18 who do not have a Child Trust Fund account, allows investment of up to £3,600 in 2011/12.

The Enterprise Investment Scheme (EIS): The EIS allows income tax relief at 30% on new equity investment (in qualifying unquoted trading companies) of up to £500,000 per tax year. Capital gains tax (CGT) exemption is also given on qualifying shares held for at least three years.

Venture Capital Trusts (VCTs): Individuals investing up to £200,000 a year in VCTs will be exempt from tax on resulting dividends and on capital gains when they dispose of shares. Individuals who subscribe for new ordinary shares in VCTs will, in addition, be entitled to income tax relief at 30% on up to £200,000 in any tax year, provided the shares are held for at least five years.

Looking Ahead: Savings & investments

ISAs: The maximum investment limit for an adult ISA will rise to £11,280 from 6 April 2012. Up to £5,640 can be invested in a cash ISA. The Junior ISA subscription limit will remain at £3,600.

EIS & VCTs: As announced in the Autumn Statement, the EIS will be simplified by relaxing the connected person rules and the definition of shares that qualify for relief, and a new qualifying test will be introduced. The Government will also remove the £1m investment limit per company for VCTs to help reduce the administrative burdens associated with the scheme.

From 6 April 2012 the employee limit for both EIS and VCT purposes will be increased to fewer than 250 employees, while the gross asset limit will rise to £15m before the investment and £16m after. In addition, the maximum annual amount that can be invested in a company will increase to £10m and the maximum annual amount that an individual can invest under the EIS will rise to £1m.

SEIS: From April 2012, a new Seed Enterprise Investment Scheme will aim to encourage investment in start up companies. The SEIS provides income tax relief of up to 50% for individuals who invest in shares in qualifying companies, with an annual investment limit for individuals of £100,000 and a cumulative investment limit for companies of £150,000. The scheme also offers a capital gains tax 'holiday' for investments made.

Make pension contributions

Investing in a pension scheme, whether a company or a personal scheme, allows you to enjoy tax breaks on your pension savings. There are tax reliefs as you invest and a tax free regime for your savings. Your employer may also be able to contribute and obtain tax relief.

For pension contributions to be applied against 2011/12 income they must be paid by 5 April 2012. Tax relief is available on annual contributions limited to the greater of £3,600 (gross) or the amount of the UK relevant earnings, but subject also to the annual allowance. Pension contributions can be made at up to 100% of relevant earnings, subject to the annual allowance of £50,000. Unused allowances (up to £50,000 per year) may be carried forward for up to three years. Unused allowances from 2008/09 will be lost unless used by 5 April 2012.

Looking Ahead: Pensions

The lifetime allowance on money that can be accrued in a pension fund and still receive tax relief, is set to fall from £1.8m to £1.5m from April 2012.

Meanwhile, starting from October 2012, employers will have to enrol all eligible workers into a qualifying pension scheme. Auto enrolment is being phased in from October 2012, on a staged basis. In the 2011 Autumn Statement, the starting deadline for employers with fewer than 50 workers was deferred until the start of the next Parliament.

Utilise inheritance tax (IHT) exemptions

IHT is currently payable at 40% on total assets exceeding £325,000 at death. Early planning is therefore essential in order to minimise your liability to IHT.

Where possible, make sure you utilise the annual IHT exemption for gifts before the 5 April year end. This is £3,000 for 2011/12. Any unused allowance for 2010/11 may be brought forward for use after the 2011/12 allowance has been exhausted. Gifts covered by the exemption do not form part of the estate for IHT purposes.

Your IHT planning strategies may also include maximising reliefs, utilising exempt transfers and making the most of trusts.

Looking Ahead: Inheritance Tax

The IHT threshold has been frozen at £325,000 until 2015. Transfers to a spouse or civil partner remain exempt.

However, a reduced inheritance tax rate of 36% will apply from 6 April 2012 to death estates, where 10% or more of the net estate is left to charity.

Consider a company van

Tax and National Insurance costs could mean that your company car may not be the most tax efficient option for either employer or employee. For some, an employer provided van may be a viable alternative to a company car: the tax charge is £1,200 plus up to £220 for fuel for those paying tax at 40% (earning approximately £42,500 to £150,000 in 2011/12).

The company car or van benefit is currently subject to a Class 1A National Insurance charge of 13.8%, payable by the employer.

It may also be worth reviewing the company car policy completely, as it could prove more beneficial to pay employees for business mileage in their own vehicles, at the statutory mileage rates. Please contact us to arrange a review of your business motoring requirements.

Looking Ahead: Travel

From 6 April 2012 the table of tax bands will be extended down to include a new 10% band for cars emitting up to 99g/km. This will replace the existing 10% band, so that qualifying low emissions cars (QALIECs) will no longer exist as a separate category. The rate for emissions of 100g/km will be 11% and will increase by 1% for every 5g/km to a maximum of 35%, as at present.

This is consistent with the reduction in CO₂ figures attained by manufacturers since the bases of company car taxation changed.

Talk to us now for advice on making the most of the opportunities available to you and your business before the Year End – and beyond.

