

# THE EVERETT GROUP

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2007/08 Year End Strategies

## Making the most of tax planning opportunities

Tax and financial planning is an essential part of business management, and you should take action now to ensure that you are making the most of the tax-saving opportunities available to you before the year end.

Your income and personal wealth can be significantly reduced by regular income-related taxes and more 'periodic' taxes, such as capital gains and inheritance tax.

This Guide suggests a range of strategies aimed at helping you reduce the tax burden and maximise your net income. However, there is no substitute for one-to-one advice, so do contact us for a solution that is tailored to your individual requirements.



### Here are just some of the areas where we can help you:

- minimising your business taxes
- improving your financial position by accelerating expenditure into the current year, or deferring income into the next
- tax-efficient profit extraction
- strategies for reducing inheritance tax
- minimising the tax on the sale of your business
- creating a tax-efficient remuneration package
- reviewing your pension arrangements
- reducing national insurance costs
- tax-efficient estate planning
- reducing the cost of company cars.

**Note: this guide refers to 'spouses'; in most cases this applies also to civil partners.**

## Have you taken advantage of your ISA allowance?

**Gains and most income in Individual Savings Accounts (ISAs) are tax-free, and they are ideal for saving small, regular amounts.**

You have until 5 April 2008 to make your 2007/08 ISA investment. ISAs are available from banks, building societies and a variety of other providers. The

maximum annual deposit is £7,000 overall, of which no more than £3,000 can be in cash.

6 April 2008 sees the introduction of significant changes to the ISA regime, which include making ISAs available indefinitely, and removing the designations of 'mini' and 'maxi' ISAs. The 2008/09 investment allowance will

be increased to £7,200, of which up to £3,600 can be invested in a cash ISA. There are also proposals to allow Child Trust Fund accounts to rollover into ISAs on maturity.

**Contact us for further information on the changes, and how they may affect you.**

In this guide

*Reducing the inheritance tax burden  
Planning for your retirement  
Year End Checklist*

*Tax-efficient ways of extracting profit  
Giving ... and receiving  
How tax-efficient is your company car?*

*Capital Allowances - maximising the reliefs  
A note on husband and wife businesses*

# Reducing the inheritance tax burden

The subject of inheritance tax (IHT) has spent a significant amount of time in the headlines in recent months, being described at one point as one of the 'least popular' taxes in the UK.

This may seem surprising, considering the fact that a relatively small proportion of the population is liable to pay the tax. However, with increases in the threshold failing to keep up with the speed of house price growth, increasing numbers of people have found that the rising value of their home has taken them over the IHT threshold.

IHT is currently payable at 40% on assets exceeding £300,000 (2007/08), so if you own your own home, and have some savings and other assets such as shares and securities, your estate could be liable. This makes early IHT planning essential.

So how can you minimise your liability to IHT?

## IHT reliefs

There are a number of reliefs available – perhaps most importantly relief on business and agricultural property, which effectively takes most of such property outside the IHT net. Subject to the two-year minimum holding period, business property will generally attract 100% property relief.

## Transfers between spouses

Transfers of assets between two UK-domiciled spouses are exempt from IHT, regardless of whether they are made during a person's lifetime or on their death.

## Gifting strategies

Introducing a programme of lifetime gifts can also significantly reduce the IHT liability on your estate and make use of available lifetime exemptions. This has the advantage of allowing you to witness the benefits they bring to your family members, while also escaping IHT

as long as you survive the gift by seven years and no longer continue to benefit from the gift yourself. A discount can also apply where lifetime gifts were made between three and seven years before death (note that the discount applies not to the gift, but to the tax on the gift). Gifts to charity are generally exempt from IHT.

## Trusts

Trusts can be used to help maintain a degree of control over the assets being gifted, for example in the case of younger recipients. Life assurance policies can be written into trust in order that the proceeds will not form part of the estate on your death. Talk to us about using trusts to suit your planning needs.

## Considering the family home

Despite announced changes to the IHT regime, some people may still choose to sell their house and buy a smaller property in order to release the cash which can then be used to fund their living expenses in retirement. In cases where the children may wish to retain the family home, raising the funds to pay the IHT due on the death of the parents may now prove less of an issue. Talk to us about the up-to-date position.

**Finally, a word of caution: when considering strategies to reduce your IHT liability, it is important to ensure that you retain sufficient funds for your own needs in retirement. Talk to us about putting in place a tax-efficient IHT strategy which suits your individual circumstances.**

# Planning for your retirement

Although it may not currently seem your most important financial goal, it is essential to put in place sufficient measures now to ensure that you will be able to enjoy your future retirement without any financial worries.

In our experience, too many individuals are still heading towards retirement without adequate savings, and personal debt is a significant problem in the UK. Meanwhile, life expectancy is continuing to rise, contributing to a general shortage in the state pension pot.

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

Scheme managers can provide pension forecasts to help you judge whether you are saving enough, and what additional savings you might have to make in order to generate the income you will need in retirement.

Pension contributions based on 2007/08 earnings must be paid by 5 April 2008. Tax relief is available on annual contributions limited to the greater of £3,600 or the amount of UK relevant earnings, but subject also to the annual allowance.

While you are waiting for your pension forecast from your pension provider, why not begin to put together a forecast of your spending needs, post-retirement – starting by looking at what you are really spending now?

**We can help you to plan for a financially secure retirement. Call us for further advice and assistance.**



# Tax-efficient ways of extracting profit

There are a number of different options available for extracting profit from your business, each of which has its own implications for both you and the business itself.

Corporation tax is due on your company's profits, while personal tax applies to what is drawn out of the company by means of a salary, bonus, or other form of remuneration.

## Salary or bonus versus dividend

The question of whether it is better to take a salary/bonus or a dividend can be a difficult one, and still requires careful consideration. A dividend is paid free of NICs, which would typically cost 13.8%, or even up to 23.8% in combined employer and employee contributions. The effect can be a considerable saving, but there can also be an increase in the value of the shares of your company if valuation is ever necessary (eg. for inheritance tax). 5 April 2008 is your last date for paying a 2007/08 dividend, and any higher rate tax on that dividend will not be due until 31 January 2009.

You may also want to consider alternative means of extracting profit, including:

## Mileage allowances

Are you making use of tax-free allowances such as mileage payments when you drive your own car or van on business journeys? The statutory rates are 40p a mile for the first 10,000 miles and 25p a mile above this. If you use your motorbike the rate is 24p a mile, and you can even claim 20p a mile for using your bicycle!

## Help with the cost of childcare

If you have young children, you are entitled to tax-free childcare vouchers of up to £55 a week, provided by your company. If your spouse or partner also works for the company, the allowance is doubled. (Your children also have their own personal allowances, CGT exemptions and tax rate bands, so depending on your circumstances, it may be possible to use these to maximise family income and wealth.)

## Pension contributions

Pension contributions can be a tax-efficient means of extracting profit from your company, as long as an individual's remuneration package remains justifiable.

## Property matters

If property which is owned by you is used by the company for business purposes, such as an office building or car park, you are entitled to receive a market rent. You must declare this on your Tax Return and pay income tax, but a range of costs connected with the property can be offset.

**Talk to us about the best ways to extract profits from your business tax-efficiently.**

# Giving ... and receiving

**When you make a donation to a charity, you are very likely to find that you are asked to make your gift under the Gift Aid scheme. If you do so, and you are a higher rate taxpayer, then you are entitled to tax relief.**

The reason is that the charity can reclaim the basic rate tax which is deemed to have been deducted before your gift is made. The effect of this is that the charity can reclaim just over 28% of the amount you give. The bad news for charities is that from 6 April 2008, this will fall to 25% because the basic rate of tax is being reduced from 22% to 20%.

If you are a 40% taxpayer and donate £1,200 to charities over the year, you are entitled to nearly £277 of additional personal tax relief (£300 for 2008/09). And if you qualify for a tax refund, we can even tick a box on your Tax Return and have the refund made over to the charity of your choice – and that gift will also qualify for Gift Aid tax relief!

Donations can be made regularly – by direct debit, for example – or as a one-off payment. They do not even need to be made in cash – talk to us about gifts from business and gifts of non-cash assets.

**Record keeping has become vital under self assessment. We need to be able to prove every figure on your Tax Return and you should keep personal financial records relating to your Tax Return for at least six years. Your entitlement to Gift Aid tax relief might provide an added incentive!**

## Year End Checklist

- ✓ Find out the impact of accelerating disposals into the current financial year or deferring them into the next
- ✓ Plan to minimise the tax take, including VAT and capital gains tax
- ✓ Investigate how to extract profits from my business at the smallest tax cost
- ✓ Claim capital allowances for expenditure on business equipment
- ✓ Make sure I avoid overvaluing stock and work in progress
- ✓ Find out how the timing of dividends and bonuses could reduce or defer tax
- ✓ Make sure I am offering tax-efficient staff remuneration packages
- ✓ Work out ways of improving cash collection
- ✓ Review my pension arrangements
- ✓ Make the most of my 2007/08 ISA allowance
- ✓ Review my estate plan
- ✓ Put in place a tax-efficient gifting strategy
- ✓ Talk to my accountant about these and any other issues relating to my business, tax and personal financial situation
- ✓ Make sure I send my business and personal records to my accountant in good time



**How tax-efficient is your company car?**

The company car has continued to be an important part of the remuneration package for many employees, despite increases in the taxable benefit rates over recent years.

However, did you know that tax and NIC costs mean that your company car may not be the most tax-efficient option for either the employer or the employee?

At one time company vans were an interesting option because the annual benefit-in-kind tax charge was a maximum of £200 (including fuel). However, with effect from 6 April 2007 this maximum has risen to £1,200 plus up to £200 for fuel!

You may find that you are better off paying employees for business mileage in their own vehicles, at the statutory mileage rates.

**We can offer you advice on the costs involved, and make suggestions as to where you could make savings.**

## Capital Allowances – maximising the reliefs

**Under the capital allowances scheme, your business can obtain tax deductions for depreciation and losses on the disposal of assets used in the business. This may include cars, plant, machinery and equipment.**

The rate of the allowances will depend on the nature of the asset, and the size of your business. The timing of the relief will also depend on the date the expenditure is incurred.

If you make a purchase just before the end of the current accounting year, the allowances will usually be available a year earlier than if

the purchase is 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.

Your decision may well be affected by forthcoming reforms to the capital allowances regime. 6 April 2008 will see the introduction of a new annual investment allowance for the first £50,000 of expenditure on plant and machinery.

**We can advise you on choosing the best time to incur expenditure, so that you can maximise the allowances available to you.**

## We are here to help

Make good use of us! This guide is merely a starting-point, designed to help you identify areas that might have a significant impact on your tax planning.

Please keep us informed of your plans and consult us early for help in taking advantage of tax-saving opportunities and tax-efficient investments.

We are always pleased to discuss matters with you and advise in any way we can.

## A note on husband and wife businesses

**The landmark tax case involving husband and wife IT business Arctic Systems finally reached a conclusion in July 2007, following several years of debate.**

The case of Jones v Garnett (commonly known as 'Arctic Systems') had centred on the issue of whether Mr Jones's salary was set at an artificially low level, and whether the dividends received by Mrs Jones should have been treated for income tax purposes as Mr Jones's.

HMRC had attempted to use the settlements legislation to argue that the dividends paid to one partner were really earned by and belonged to the major fee earning partner, a higher rate tax payer. It is a business structure that is currently used by thousands of married couples who jointly own a small business.

However, although Arctic Systems eventually won the case after a series of appeals, shortly after the ruling HMRC pledged to introduce legislation to close what it considers to be a 'tax loophole' allowing income splitting.

HMRC has since issued guidance on how cases should be dealt with ahead of any future changes in the law.

Cases which are currently still open will be settled in line with the decision in Jones v Garnett where the facts indicate that this is appropriate. Returns for 2005/06 and 2006/07 should be completed in line with the House of Lords' decision.

**Contact us for information on the possible implications of the ruling for your business. You should always seek professional advice before taking any action.**