



**CREASEYS**  
CHARTERED ACCOUNTANTS

**CREASEYS TOP TAX SAVING TIPS**

**ACTION BEFORE 5 APRIL 2011**

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### INTRODUCTION

With government finances under increasing pressure and the economic climate still harsh the Chancellor will no doubt be looking to raise more revenue with the Budget announced for 23 March. We have some forewarning of possible changes as the Office of Tax Simplification have listed over 1,000 tax reliefs and allowances and highlighted 49 which are up for imminent review and possible abolition. These include a number of key reliefs such as main residence exemption for capital gains tax and the ability to make tax free gifts for inheritance tax purposes provided one lives 7 years. With tax rates already high and rising, it is as important as ever therefore to contact us for a year end tax planning review. We have highlighted below 10 points that we would urge you to look at before 6 April and ideally well before the Budget on 23 March.

*Richard Holme – Senior Tax Partner*

*Mark Howard – Private Client Partner*

*Elizabeth Robertson – Corporate & Business Tax Partner*

#### **1 Save Income Tax**

We are nearly a year now into a high tax regime with many paying tax at marginal rates of 50% and 60% and those with earned income face a rise in NIC of 1% from 6 April 2011. Action points to consider include:-

- Transfer income producing assets to spouses and members of the family with lower tax rates.
- Maximise use of tax shelters
- Time any pension contributions carefully – in some cases deferral until *after* 5 April 2011 may be beneficial.
- Employers should look to pay bonuses before 6 April to save NIC.

*Example - Sarah has a salary of £100,000 and investment income of £25,000. Her husband Brian has income of £10,000. By transferring the investments to Brian, Sarah saves £10,000 tax annually!*

## **2 Use a Limited Company to Save Tax**

Corporate Tax rates have been fixed by the Government for the next three years and for smaller companies fall to 20% from April 2011. Action points would include:-

- Use a company to provide services or undertake a project such as a property development.
- Introduce a corporate partner into your business or transfer the whole business into a limited company.

Please note that only companies can obtain certain specified reliefs such as for purchasing goodwill or cleaning up contaminated land.

*Example - Sheila operates a successful business making profits of £120,000 annually. This is taxed on her at 40% and partly at a marginal rate of 60%. By transferring the business to a company and retaining profits within it, she could save £18,000 tax annually.*

### **3 Review Your Inheritance Tax Position Now!**

Inheritance Tax (IHT) continues to be a major burden for many families with a £1m estate bearing IHT on death of up to £270,000. We frequently find an IHT review can identify major savings and are aware that the Government have highlighted IHT as an area for review, having done little over the past few years to change the rules. 6 reliefs have been identified for immediate review including potentially exempt transfers (the ability to make tax free gifts provided one lives 7 years) and 21 further allowances on IHT have been listed for secondary review! If you are planning a gift, consider making it sooner rather than later. There are many exemptions from IHT for businesses and agricultural land and related operations. The conditions though are very tight and yet can be exploited in some cases.

*Example - Henry owns 100 acres of valuable development land which he lets out to a farming tenant. By changing the nature of his relationship with the tenant it may be possible to enjoy an IHT exemption on the open market value of the land with carefully planning. If the land was worth say £2m this could save £800,000 of IHT on his death.*

### **4 Make That Second Home Election ..... Sooner Rather Than Later**

The CGT exemption on the main residence is unlikely to be abolished but some aspects may be tightened up such as the ability to elect for a short period that a second or holiday home can be the main residence, thus exempting a large chunk of any gain on sale. Given extensive press coverage of this relief it could be open to attack and please contact us if you have a second home either in the UK or abroad so that we can consider the position as a matter of urgency.

*Example - Brian bought a holiday home in Suffolk 18 months ago and will soon be selling it for a gain of £100,000. By making an election it may be possible to avoid tax entirely on the gain thus saving up to £28,000 of capital gains tax.*

## **5 Time That Pension Payment Carefully**

There have been a number of confusing announcements on the tax regime for pension payments over the last couple of years culminating in a Government announcement on 14 October 2010 simplifying and to some extent relaxing the rules at least for higher earners. Action points to consider include:-

- Those with income below £130,000 (that limit should not have been exceeded in the previous 2 tax years either) would be well advised to make pension contributions in excess of £50,000 (should they be so minded) before 6 April 2011.
- Those on high income may well be advised to defer substantial pension payments until after 5 April 2011 as from that date £50,000 pension payments will qualify for full tax relief together with any unused relief from the previous 2 years.
- Regular monthly or quarterly contributions should generally be maintained until April 2011.

*Example - Irene earns £250,000 salary and wishes to maximise her pension provision. A payment of £50,000 after April 2011 may save £25,000 tax whereas at present it may only save £10,000.*

## 6 Holiday Let Owners ..... Act Before It's Too Late

The Government have announced a tightening up on the rules of holiday lets (see separate helpsheet) and therefore it is in the best interests of holiday let owners whether in the UK or European Economic Area, to incur expenditure before 6 April 2011 if they expect a loss to arise on the activity. From 6 April 2011, losses on holiday let activities can only broadly be set against other holiday let income.

*Example - Anne, a 40% taxpayer, has a holiday let in the New Forest which usually 'breaks even' year by year but she knows she has to refurbish the kitchen and undertake a roof repair costing £30,000 in the next year or so. If she does this work before 6 April 2011 she will get a tax rebate of £12,000 but after that date she may get no tax rebate at all.*

## 7 Use An Offshore Bond

Many clients have taken investment advice and chosen to invest cash and other investments in an Offshore Insurance Bond. A separate detailed helpsheet is available on this but broadly the underlying income and capital of the Bond should escape taxation and the holder can withdraw 5% of the Bond tax free each year. Such Bonds are particularly beneficial for those perhaps with cash or paying a marginal tax rate of 50% or 60% and with proper investment advice and careful management may be good investment vehicles also.

*Example - Julia has £500,000 in cash and currently earns 2% interest i.e. £10,000 on which she pays £4,000 tax, being a 40% taxpayer. She puts the cash in an offshore insurance bond and interest is earned free of tax thus saving her £4,000 of tax annually.*

## 8 Review Any Family Trust

Most Trusts now face a 50% income tax charge and may have to pay inheritance tax every 10 years or so, albeit at a modest rate. Trusts continue though to be an extremely effective way of protecting family wealth and saving tax but their continued existence and inception need to be planned carefully. Action points for Trusts before 6 April 2011 include:-

- Making payments to family beneficiaries to use their allowances and lower rate bands.
- Considering investing in tax effective financial products so as to minimise exposure to tax.
- Using CGT annual exemptions and allowances.

Often a change in the structure of the trust may save significant amounts of tax and Stephanie Parker, our Trust Manager, would be very happy to review your circumstances with you.

*Example – The Ericson Discretionary Trust owns shares in the family company Ericson Limited and these may be sold for a gain of £2m in a year or two. Up to £360,000 of tax could be saved on the sale through changing the nature of the Trust and, in the meantime, that change might also reduce tax on any dividend distributed to beneficiaries.*

## 9 Minimise Capital Gains Tax

With CGT now applying at a normal rate of 28% for higher rate taxpayers, even using the CGT annual exemption of £10,100 each year will save nearly £3,000 of tax. Consideration needs to be given to spreading the ownership of investments around the family in order to use exemptions and lower rate bands and the ability to use entrepreneur' relief (10% rate) on qualifying gains must be considered carefully.

*Example - Brenda and her husband Bob own 4% each of Anne Limited and are directors. The company is expected to be sold for a gain which may accrue to them of £300,000. By making a transfer from one spouse to the other at least a year before the sale, £54,000 of tax will be saved.*

## 10 Use Those Allowances Before 6 April

Although relatively small in quantum, these annual allowances can be most useful in saving tax for you and your family, for example:-

- Annual CGT exemption - £10,100 (Tax benefit up to £2,880)
- Inheritance Tax annual allowance £3,000 (Potential benefit £1,200)

One allowance that is going on 6 April is the Enterprise Zone allowance whereby an investor may obtain 100% tax write off for investment in commercial buildings in Enterprise zones. Often these can be carefully structured so as to obtain a tax rebate greater than the initial cash outlay by the investor. Contact us for details.

## 11 Conclusion

Tax is not everything but in the current economic and financial climate, there are still massive opportunities to save tax, provided the appropriate steps are taken in advance.

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