taxfish

Make Taxes Easy

Your practical guide to
personal, family & company tax

2011/12 edition

With compliments, from the team at

taxfish

Our aim is to make tax simple for you

Make Taxes Easy:

Your practical guide to personal, family and company tax. Simplifying the tax system and helping you identify ways to save money.

With compliments

Taxfish

The Online Tax Return Company
Simple Self Assessment

www.taxfish.co.uk

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Higher Rate Taxpayers, Sole Traders and Landlords
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A Few Essentials

Introduction

In the UK the greater bulk of income tax which flows into the Exchequer does so by deduction at source. The tax is taken from income before it is paid to the taxpayer and most of this happens by way of Pay-As-You-Earn (PAYE). This collection system will no doubt be familiar to almost everyone who is in employment and also to those who receive pensions.

Most other income tax collected at source comes from deductions made by banks or building societies from interest paid to savers. Many of us, including children, the retired and working people, will have savings accounts of one sort or another and many might also have shares from which income arises in the form of dividends. These too are treated as having suffered income tax at source.

As these circumstances cover the overwhelming majority of individuals, more than 80% of the population will have little or no regular contact with HM Revenue and Customs (HMRC), the organisation that administers and regulates all taxes in the UK.

Around 9 million taxpayers have something more than just a regular income taxed under PAYE and interest on savings. Instead they might have income from their own business or receive rent from a property. Alternatively, it may be that their income is significant enough to attract higher or additional rate tax so that the tax deducted at source on their savings income is insufficient. These taxpayers may be asked to complete a self assessment return each year and then they will have direct contact with HMRC.

Tax Planning

If you are not asked to complete a tax return, it remains your responsibility to advise HMRC if there is a new source of untaxed income or a capital profit that could lead to a tax liability. Please contact us for further advice if this affects you.

Income tax is not the only means by which the government relieves us of our hard earned cash. You may own assets such as a precious antique, a second home or shares. If such an asset is sold, the chances are that a profit will arise and this may give rise to a liability to capital gains tax.

Details of any capital gains may have to be included on the self assessment return.

Inheritance tax may be payable on the assets that you give to others in your lifetime or leave behind when you die. At one time very few individuals had to worry about this tax.
House price increases over the last two to three decades have changed this and many more estates have now become liable. The government has implemented some changes to try and address this issue but many people will still need to consider some planning to minimise this tax.

Many of those in business have to understand the principles of Value Added Tax (VAT) because they will have to act as an unpaid collector of this tax. In addition, those who run their business through a limited company need to know about corporation tax which taxes a company's profits.

Practical Tip
Remember to keep all tax related documents such as interest statements, dividend vouchers, pay certificate form P60 etc. Place everything in a folder through the year as it is received. Then you can simply hand this to us when we need to prepare your self assessment return.

HMRC are increasingly emphasising the importance of good records. Failure to maintain adequate records may lead to inaccurate tax returns which could result in penalties.

This guide is designed to provide you with a simple guide to all of these taxes from seven perspectives - that of the family; the working man or woman in employment; the person running their own business; the taxation of investments; property matters; disposals and capital gains tax and finally, knowing that nothing is certain except death and taxes, the potential liability on your estate at death.

Please use the guide to help you identify planning opportunities, pitfalls to avoid and areas where you may need to take action and then contact Taxfish Planning for further advice.

Self assessment (SA) timetable

- Income tax and capital gains tax are both assessed for a tax year which runs from 6 April to the following 5 April.
- Shortly after 5 April - SA returns or a notice to complete a return are issued by HMRC.
- 31 October following - non-electronic returns need to be submitted to HMRC by this date.
- 31 January following - final date for submission of return and all outstanding tax to be paid.
- There is an automatic penalty for late filing of the return of £100.
- Further penalties may be due if the filing of the return is significantly delayed. These are significantly increased from previous years and may run into hundreds of pounds.

Practical Tip
In a change to the previous rule the full £100 penalty will always be due if your return is filed late even if there is no tax outstanding. It is therefore essential to submit the return on time either by 31 October (non-electronic) or otherwise 31 January following the end of the tax year.

Family Matters

Married Couples

The phrase 'spouse' whenever used in this guide includes a registered civil partner.

Spouses are taxed as independent persons, each of whom is responsible for their own tax affairs. In principle all individuals are entitled to a basic personal allowance before any income tax whatsoever is paid. However, some individuals on high incomes may receive a reduced or even no personal allowance. This is explained further below.

The basic 2011/12 personal allowance is £7,475. The tax bands and rates shown opposite are applied to each spouse separately, so that each may have taxable income up to £42,475 before they start to pay higher rate tax. There is no aggregation of income, no sharing of the tax bands and the basic personal allowance may not be transferred from one spouse to the other.

Tax rates

For 2011/12 the main tax rates remain unchanged at 20% basic rate tax, 40% higher rate tax and 50% additional rate tax.

A 10% rate band continues to be available for savings income in circumstances where an individual has taxable earned income of less than £2,560. The tax rates applicable to dividends remain the same for basic rate, higher rate and additional rate taxpayers.

2011/12 Income Tax Rates

£	%
0 - 2,560	10*
2,561 - 35,000	20**
35,001 – 150,000	40***
Over 150,000	50****

* Only applicable to savings income and dividends
** 10% on dividends
*** 32.5% on dividends
****42.5% on dividends

Other income taxed first, then savings income and finally dividends.

Losing the personal allowance

Where an individual's total income exceeds £100,000 the personal allowance is reduced by £1 for every £2 of income in excess of that limit. This means that an individual with total taxable income of £114,950 or more will not be entitled to any personal allowance.

Tax Tip

If your income is in the range £100,000 - £114,950 the restriction in your personal allowance is the equivalent of a tax cost of 60%. You may want to consider making or increasing certain payments which are tax deductible to minimise this tax cost.
Examples include pension contributions (which may be subject to restrictions) and charitable donations.

Higher allowances for those aged over 65

The basic personal allowance increases to £9,940 where the taxpayer is aged 65 or over on the last day of the tax year in question and £10,090 where the age on that day is 75 or over. This more generous allowance is reduced by £1 for every £2 that the taxpayer's income exceeds £24,000. It cannot be reduced below the basic allowance of £7,475 unless the taxpayer's income exceeds £100,000.

Married couple's allowance
In 2011/12 a married couple's allowance is only available to those couples where at least one spouse is 77 or over by the last day of the tax year. It is normally claimed by the husband, except for marriages on or after 5 December 2005, where it is claimed by the higher income spouse. This allowance can be worth nearly £730 per year to a couple but its detailed application is complex. It is worth noting, however, that this allowance can be transferred to the wife or shared between the spouses if they so choose.

Minimising the tax bill
It follows from the basic rules set out above that tax is minimised if spouses equalise, as far as possible, their income so that all personal allowances are fully utilised and higher/additional rates of tax are minimised.

Example
In 2011/12 Ian and Angela have savings income of £100,000 and no other income.

If this is split equally between them, the total tax bill for the couple is £19,508. If only one spouse has income of £100,000 and the other has nothing, the total tax bill leaps to £29,754 - an additional £10,246!

Tax Tip
If you are feeling charitable, remember that a contribution to charity under the Gift Aid scheme benefits from tax relief. It makes sense for a higher rate/additional taxpayer spouse to make such donations so that they can benefit from the extra tax relief.

Alternatively donations can be carried back to attract tax relief in the previous tax year.

Jointly owned assets
Married couples will often own assets in some form of joint ownership. If they do not, then it may be advantageous for tax purposes for transfers to be made to ensure joint ownership.

This can have benefits for income tax, capital gains tax and even inheritance tax.

Tax Planning
If you and your spouse are both involved in running a business, income can be equalised if you are equal partners or equal shareholders. Alternatively if only one of you is involved, the other could be employed even if only to use up their personal allowance.

Where assets are owned in joint names any income is deemed to be shared equally between the spouses. If the actual ownership shares are unequal, income is still deemed to be split equally unless an election is made to split the income in the same proportion as the ownership of the asset.

This does not apply to shares in close companies (almost all small, private, family owned companies will be close companies) where income is always split in the same proportion as the shares are owned.

Example
A buy to let property is owned three quarters by Helen and one quarter by her husband Mark. If no election is made the net rental income on which tax is payable will be split 50:50.

If an election is made the income will be split 75:25. A choice can be made according to which is the most desirable when other income of the spouses is taken into account.

Capital gains tax
Independent taxation also applies to capital gains tax. Each spouse is entitled to take advantage of the annual exemption of £10,600 before any capital gains tax has to be paid.

This is advantageous where assets are held jointly and then sold as each spouse can use their annual exemption to save tax.
The transfer of assets between spouses is neutral for capital gains tax. This is sometimes done shortly before assets are sold to minimise tax. Advice should be sought before undertaking such transactions to ensure that all tax aspects have been considered.

Capital gains tax is payable on the amount of capital gains above the annual exemption at either 18% or 28%. Further detail on the operation of this tax is included in the disposals and capital gains tax section of this guide.

Separation
The breakdown of a marriage will often involve the transfer of assets between spouses. The marriage continues until the divorce is legally finalised, but, for transfers of assets to be entirely free of a charge to capital gains tax, the transfer must be made before the end of the tax year in which the separation takes place.

Separation is deemed to happen when the couple cease to live together as man and wife - quite different to the date the divorce is final which is often much later.

Example
If a couple cease to live together on 30 April 2011, transfers of assets must generally be made between them by 5 April 2012 for capital gains tax to be avoided.

Conversely, for inheritance tax, transfers that take place before the divorce is final will continue to be exempt.

There is usually neither tax relief on maintenance payments made by one former spouse to another nor on any payments required by the Child Support Agency.

Children
It is often assumed that children are not taxpayers until they achieve some particular age.

In fact HMRC will tax a child just as readily as anyone else if the child has sufficient income to make them liable.

Transferring income to children
Children have their own personal allowances and tax bands. Where their only income is, at best, a few pounds from a paper round or a Saturday job, there may be some scope for transferring income producing assets to the children to use up their personal allowance.

However, such assets should not be provided by a parent, otherwise the income remains taxable on the parent, unless it does not exceed £100 each tax year.

Tax Planning
There is nothing to stop you employing your children in the family business so as to take advantage of their personal allowance. There are age restrictions (with some exceptions minimum age is generally 14 years old) and legal limitations as to the type and duration of the work. It is also essential that payment is only made for actual work carried out for the business and at a reasonable commercial rate.

Children and capital gains
Children also have their own annual exemption for capital gains tax so that assets transferred to them which have a bias towards capital growth rather than income may prove to be more advantageous.

Repayment claims
Where children have significant sources of income from which tax has been deducted, such as bank interest or trust income, they will almost certainly be entitled to a repayment. In such cases a repayment claim should be made.

Child Trust Funds (CTFs)
These accounts were introduced to encourage tax efficient savings, with the government's help, to build a savings fund which the child can access once they reach 18.

The availability of new CTFs ceased from January 2011 as did government contributions to the accounts. Existing CTFs will continue to benefit from tax free investment growth. No withdrawals are possible until the child reaches age 18. However, the child's friends and family will continue to be able to contribute up to an overall total of £1,200 a year and it will still be possible to move it to another provider.

Junior Individual Savings Account (ISA)
A new Junior ISA is to be introduced which will be available for UK resident children under the age of 18 who do not have a CTF account. Junior ISAs will be tax advantaged and will have many features in common with existing ISAs.

They will be available as cash or stocks and share based products. The government expects that Junior ISAs will be available from autumn 2011.

Tax Planning
There are some other limited ways income can be transferred to children tax efficiently such as:
1. National Savings Children's Bonus Bonds or National Savings Certificates which are tax free.
2. Friendly Societies offer 10 year minimum, tax exempt savings plans for children for up to £25 per month.

Tax Credits
The Child Tax Credit is means tested and potentially available to families who have responsibility for one or more children. The basic family element is £545 per annum. The amount is tax free and is available where combined annual income is less than £41,330. Working Tax Credit is available to workers on lower incomes with or without children. The credits may include a claim for 70% of childcare costs up to a maximum payment of £122.50 (£175 x 70%) per week for one child and £210 (£300 x 70%) per week for two or more children.

There are several elements to both types of credit and claims can be complicated. So please talk to us about how to get further information.

Practical Tip
Some families who are entitled to a tax credit do not receive it because they fail to apply.

Civil Partnerships
All the special rules for married couples, both those dealt with in this section and those covered in other sections of this guide apply equally to same-sex couples who have entered into a registered civil partnership.

What about unmarried partners?
It still pays to equalise income as much as possible, as income tax will be minimised. However, transfers of assets may be liable to capital gains tax and, if substantial, could also lead to an inheritance tax liability. It is vital for unmarried couples to each make a Will if they wish to benefit from each other's estate at death.

A word of warning
Transferring assets or interests in a business between husband and wife may attract the interest of HMRC especially where it is obvious that it has been done primarily for tax saving purposes. Transfer of ownership of an asset must be real and complete, with no right of return and no right to the income on the asset given up.

If a non-working spouse is given shares in an otherwise one-person, private company, HMRC may regard this as a sham and seek to tax the working spouse on all of the dividends under what is known as the 'settlements legislation'. So you may want to consider obtaining advice before entering into this type of arrangement.

Checklist for Couples
1. Try to equalise your income.
2. Consider placing assets in joint names.
3. If you have children consider making use of their personal allowances.
4. Ensure you have fully considered any entitlement to tax credits.

Working for Others

Few avoid working for others at some time in their life and most will have encountered the PAYE system operated by employers to collect the income tax and national insurance contributions (NIC) due on wages and salaries.

The tax code

Ensuring the right amount of tax is taken relies on a PAYE code, issued by HMRC and based on information given in a previous self assessment return or supplied by the employer. The employee, not the employer, is responsible for the accuracy of the code.

Code numbers try to reflect both your tax allowances and reliefs and also any tax you may owe on employment benefits. For many employees things are simple. They will have a set salary or wage and only a basic personal allowance. Their code number will be 747L and the right amount of tax should be paid under PAYE. However, for those who are provided with employment benefits (see below for examples of common benefits) the code number is generally adjusted to collect the tax due so that there are no nasty underpayment surprises.

For those who receive both a state pension and other pensions or employment income, an adjustment is usually made so that the state pension uses your tax allowances first leaving a lower code number available to be used against other sources of pension income. This is to ensure that as far as possible pensioners are not left with a tax bill on their state pension.

HMRC may also try to collect tax on untaxed income or tax owing from an earlier year. The code may even try to allow for higher rate tax that has to be paid on investment income. You do not have to agree to tax owed on untaxed income and prior years' underpayments being dealt with in this way.

With this many complications and some guess work involved, getting the code exactly right can be difficult and the right amount of tax will not always be deducted.

Tax Tip

If you are unsure about your code and are anxious not to end the tax year under or overpaid, then you should have it checked. Please talk to Taxfish Planning.

Benefits

The range of benefits available will vary significantly depending on the type of employment. Some attract no tax but even taxable benefits can be efficient as the benefit obtained by the individual can often outweigh the tax cost arising. In addition, for the individuals (but not the employers) benefits generally do not attract NIC.

Company cars

Employer provided cars, commonly known as company cars, remain a popular benefit and for some a real status symbol, despite continued increases in the tax charge they give rise to.

The charge on cars is calculated by multiplying the list price of the car by a percentage which depends on the CO2 emissions of the car. You then pay tax at 20, 40 or 50% on this charge depending on your overall tax position.

The table overleaf shows the percentages for 2011/12. For those with CO2 emissions at or above 125 grams per kilometre (g/km) however, the taxable benefit is 1% higher compared to 2010/11.

The CO2 emissions of most cars can be located on the internet and officially has to be recorded on the Vehicle Registration Document.

2011/12	
CO_2 emissions (g/km)	% of car's price taxed
75 or below*	5
76 to 120	10
121 to 125	15
130	16
135	17
140	18
145	19
150	20
155	21
160	22
165	23
170	24
175	25
180	26
185	27
190	28
195	29
200	30
205	31
210	32
215	33
220	34
225	35

**Applicable from 06/04/10 – 05/04/15*

If the car has a diesel engine the charge is increased by 3% (except that it cannot exceed 35%).

Percentage charges for 2012/13

From 6 April 2012 the CO2 emissions bands used to work out the taxable benefit for an employee who has the use of a company car will be shifted down by a further 5g CO2 per km.

This means that a car with 120g CO2 per km will attract a 15% charge. In addition, the current graduated table of company car tax bands will be extended down to a 10% band as shown opposite.

2012/13	
CO_2 emissions (g/km)	% of car's price taxed
75 or below	5
76 - 99	10
100 - 104	11
105 - 109	12
110 -114	13
115 - 119	14
120	15
125	16
130	17
For every additional 5g thereafter add 1%	
220 and above	35 (max)

Example

Mark has a Mercedes C class (diesel) registered on 1 February 2009. It has an original list price of £23,855 and CO2 emissions of, say, 150. Mark had extras fitted to the car costing £1,000 (VAT inclusive). In 2011/12 the taxable benefit will be £5,717 ([23,855 + 1,000] x 23%*). If Mark is a higher rate taxpayer the tax due on this will be £2,287 for the year. If the same car continues to be provided in 2012/13 the taxable benefit will be 1% higher at £5,965.

* 20% from the table plus 3% diesel supplement.

Fuel for private use
A separate charge applies where private fuel is provided by the employer for a company car. The charge is calculated by applying the same percentage figure used to calculate the company car benefit to a fixed figure which for 2011/12 is set at £18,800.

Tax Planning
The fuel benefit charge can be expensive. On a typical mid-range diesel car, for example, the cost to a 40% taxpayer is roughly equivalent to paying for 12,000 miles worth of fuel.

It may be cheaper for the employee to pay for all the fuel and to reclaim from the employer the cost of business miles driven in a company car based on a specific log of business journeys undertaken.

HMRC publish advisory rates for the cost of fuel which can be used for this purpose. Rates from 1 June 2011 are:

Engine Size	Petrol	LPG
1400cc or less	15p	11p
1401cc to 2000cc	18p	13p
Over 2000cc	26p	18p
Engine Size	**Diesel**	
1600cc or less	12p	
1601cc to 2000cc	15p	
Over 2000cc	18p	

These rates are regularly reviewed so do check the current position.

Medical insurance
The employee is taxed on the amount of the premium paid by the employer.

Home and mobile phones
There is no benefit on the provision of a company mobile phone even where it is used privately. However, this is limited to one phone per employee.

Where home telephone bills are paid by the employer, the amount paid will be taxable.
The employee may make a tax deduction claim for the cost of business calls only but not the line rental which is treated as private.

Cheap or interest free loans
If loans made by the employer to an employee exceed £5,000 at any point in a tax year, tax is chargeable on the difference between the interest paid and the interest due at an official rate - currently 4%. An exception applies for certain qualifying loans - please contact us for information.

Childcare costs
Childcare costs paid for by an employer are exempt from both income tax and NIC. This applies to a place in an employer operated nursery or where the employer pays for registered or

approved childcare. In this latter case the exemption is limited to a maximum of £55 per week and any excess over this is subject to tax and NIC.

From 6 April 2011 new joiners to a childcare scheme who are higher or additional rate tax payers will only be entitled to £28 or £22 a week of exempt childcare respectively.

The costs will normally be paid in the form of vouchers or alternatively paid direct to the childcare provider. Any scheme must be open to all employees or all employees at a particular location.

Approved childcare includes registered child minders, nurseries and play schemes, out of hours clubs run by a school on the school premises or by a local authority and childcare schemes run by approved providers.

Tax Planning
Contributions by an employer to a registered pension scheme are generally tax and NIC free for most employees. This may be far better than any other perk.

You may want to sacrifice some of your 'normal' salary to do this. Please talk to Taxfish Planning to make sure your salary sacrifice scheme is effective.

Expense payments

Reimbursed expenses

Reimbursed expenses are taxable as a benefit but the employee can claim a deduction for those expenses incurred wholly for business purposes. The overall effect is usually neutral.

What happens is that at the end of each tax year, the employer sends a summary, to HMRC, of all benefits provided on a form P11D for each employee. As well as the benefits covered earlier, this form will include all reimbursed expenses.

The employee can then make an expense claim to HMRC either on a self assessment return or by letter for any business expenses so that these are not taxed.

Because, often, nothing is taxable, employers can ask to be excluded from the expense reporting process if they apply to HMRC. This is known as a dispensation.

Tax Planning
Check if a dispensation is in place. If not, the employee must include reimbursed expenses shown on the P11D as income and then claim a deduction for the business portion of the reimbursed expenses. If the employee does not receive a tax return they can write to HMRC to claim the deduction.

Mileage claims

Many employers pay a standard rate of mileage to all employees who use their own cars for business journeys. HMRC set statutory rates for business mileage which, from 6 April 2011, are 45p for the first 10,000 miles in a tax year and 25p thereafter. If the employee is paid for business miles at less than the statutory rates, tax relief is available on the difference. If, however, the employee is paid at more than these rates then the excess is taxable.

Tax Tip
If you are paid less than the statutory rates to use your own car for business purposes remember to claim a deduction on your return or write to HMRC to make your claim.

Example
In 2011/12 Daksha travels 14,100 business miles in her own car and is paid 32p per mile by her employer.
Daksha can claim tax relief on an additional amount of £1,013 ((10,000 x 45p) + (4,100 x 25p)) - (14,100 x 32p).

Mileage payments do not have to be shown on the form P11D unless the rates paid are more than the statutory rates.

Other transport issues

Vans
Where employees are provided with a van and the only private use of this is to go to and from work (including any incidental private use), then no taxable benefit should arise. If there is private use beyond this, there is a benefit of £3,000 per annum and an additional £550 if fuel is provided for private as well as business journeys. In order to avoid this charge, it is advisable to have a formal, written policy and detailed mileage logs. These will support the limited private use of the van and may avoid problems with HMRC in the future.

Practical Tip
Many double cab pickup trucks are treated as vans and are still a tax efficient way to avoid the generally higher car benefit charges.

Employee Checklist
1. Check your tax code to avoid a substantial underpayment at the year end.
2. Do not reject a benefit just because it is taxable.
3. Company cars do not have to be expensive; choose wisely to minimise the benefit.
4. Consider paying for fuel yourself and reclaiming business mileage, based on an accurate business log.

Running a Business

Starting up a business of your own is a big step and not one to take lightly. The taxation of your business is only one of many commercial and legal aspects of starting a business that you will need to consider.

Preparation is the key and a proper business plan is one of the first things you should do. However, tax matters are our main concern here.

Choosing a business structure
The alternative business structures are:

Sole Trader
This is the simplest form of business structure since it can be established without legal formality. The business of a sole trader is not distinguished from the proprietor's personal affairs. If the business incurs debts which are unpaid, the creditors can seek repayment from the sole trader personally.

Partnership
A partnership is similar in nature to a sole trader but involves two or more people working together.

A written agreement is essential so that all partners are aware of the terms of the partnership. Again the business and personal affairs of the partners are not legally separate.

Sole traders and partnerships are often referred to as unincorporated businesses and the individual owners as self-employed.

Limited Company
A company is a legal entity in its own right, separate from the personal affairs of the owners and the directors.

A company provides protection from liability, which means that the creditors of the company cannot make a claim against the owners or the directors except in limited circumstances. Often this advantage is somewhat eroded because a bank, for example, may seek personal guarantees from the directors.

These potential advantages carry the downside of greater legal requirements and regulations that must be complied with.

Limited Liability Partnerships (LLPs)
LLPs are a halfway house between partnerships and companies.

They are taxed in the same way as a partnership but are legally a corporate body. This again gives some protection to the owners from the partnership's creditors.

In this section we consider the differing tax treatments of the alternatives but you should choose which structure is right for you based on more than just the tax issues alone.

The tax regime

Unincorporated businesses

A new business should register with HMRC on commencing to trade. Income tax is paid on the profits of the business. The amount that the proprietor, or a partner in a partnership, draws out of the business (referred to as 'drawings') is irrelevant.

Profits are taxed on a current year basis as shown by the example, although a new business will be subject to special rules, which we can outline for you.

Example

If the accounting period (or 'year') end is 31 March then, in the tax year 2011/12, the profits for the year ended 31 March 2012 will be taxed.

If the year end was 31 August then, in the tax year 2011/12, the profits for the year ended 31 August 2011 will be taxed.

Tax Tip

The choice of accounting date on a business start up can affect:

1 how profits are taxed
2 when tax is payable
3 when losses are relieved.

So do contact Taxfish Planning to discuss the options available for your circumstances.

Working out profits

Profits are calculated using accepted accounting practices and crucially this means that profit is not necessarily simply receipts less payments. Instead it is income earned less expenses incurred.

Not all of the expenses that a business incurs are allowed to be deducted from income for tax purposes but most are. It is important that you keep proper and comprehensive business records so that relief may be claimed.

Tax Tip

Try to incur expenditure just before rather than just after the year end, as this will accelerate the tax relief.

Examples of the type of expenditure to consider bringing forward include building repairs and redecorating, advertising and marketing campaigns and expenditure on plant and machinery.

Capital allowances

When assets are purchased for the business, such as machinery, office equipment or motor vehicles, capital allowances are available. As with expenses, these are deducted from income to calculate taxable profit.

Plant and machinery - Annual Investment Allowance (AIA)

The AIA gives a 100% write off on most types of plant and machinery costs, but not cars, of up to £100,000 per annum. Any costs over the AIA will attract an annual ongoing allowance of 10% or 20% depending upon the type of asset.

The AIA may need to be shared between certain businesses under common ownership.

The AIA will be reduced to £25,000 with effect from April 2012. Additionally, the annual ongoing allowances will be reduced to 8% or 18% depending on the type of asset. Capital expenditure plans should therefore be reviewed to consider maximising available tax relief.

The following table demonstrates the income tax relief that would be obtained by a self-employed 40% taxpayer on differing levels of qualifying main pool plant purchases in the tax year of expenditure.

Expenditure	Tax saving if expenditure In 2011/12	Tax saving from 6 April 2012
£25,000	£10,000	£10,000
£50,000	£20,000	£11,800
£100,000	£40,000	£15,400

Tax Tip
Clearly where full relief is not obtained in the initial period there will be further tax relief in subsequent years but maximising tax relief early has an important impact on tax cash flow. Businesses that routinely spend upwards of £25,000 annually on qualifying plant or those planning a major building refurbishment which includes qualifying replacement plant such as heating or lighting systems may want to consider the possibility of advancing expenditure before the reduction impacts from April 2012.

In addition to the AIA all businesses are eligible for a 100% allowance, often referred to as an enhanced capital allowance, on certain energy efficient plant and low emission cars.

Motor cars
The tax allowance on a car purchase depends on CO2 emissions. Essentially those with emissions up to 160g/km attract a 20% allowance and those in excess of 160g/km will only be eligible for a 10% allowance. With effect from April 2012 these annual allowances will be reduced from 20% to 18% and from 10% to 8% depending on the CO2 emissions.

Cars purchased prior to April 2009 continue to generally attract a 20% allowance in 2011/12. This also reduces to 18% from 6 April 2012. Where these older cars are separately pooled, the £3,000 restriction which caps the annual allowance continues to apply.

Paying the tax
The self-employed may have to pay tax and NIC three times a year, namely:

- 31 January in the tax year
- 31 July following the tax year
- 31 January following the tax year.

In certain circumstances, the first two payments can be waived.

Practical Tip
The payments on account system can make tax payments very volatile if profits fluctuate widely from year to year. You must plan ahead carefully to avoid nasty shocks.

However, if you are having difficulties paying tax liabilities due to the current economic conditions then you may be able to spread payments over a period of time to suit individual business circumstances using the HMRC business payment support service. Please contact us for further information if this affects you.

Companies
Unlike sole traders and partnerships who pay tax on profits only (and drawings are ignored), companies have two layers of tax. The first is tax payable by directors and shareholders on money they take out of the company and the second is corporation tax which is due on the company's profits.

Practical Tip
If you operate as a limited company, there is a legal separation between you as the owner and the company itself. This means you cannot use the company bank account as if it were your own! This requires a certain amount of discipline without which all kinds of legal and tax related difficulties can occur.

Corporation Tax (CT) Rates

Corporation Tax

	Year to 31.3.12	Year to 31.3.13
Small profits rate	20%	20%
Marginal rate (* assumed)	27.5%	26.25%*
Full rate	26%	25%

The small profits rate normally applies where profits do not exceed £300,000. It also applies to the first £300,000 where overall profits are between £300,000 and £1,500,000.

The balance of the profits between £300,000 and £1,500,000 are taxed at the marginal rate.

The full rate applies to all profits where those profits are greater than £1,500,000.

As reflected above, the government plans to further reduce the full rate first to 24% from 1 April 2013 and then to 23% from 1 April 2014. The effective marginal rate should also reduce by 1¼% in each relevant year assuming the basis for its calculation is not altered.

Tax on 'drawings'
Directors of a company will normally be paid a salary and this is taxed under PAYE as for all employees. The cost of this, including the employer's NIC, is generally an allowable expense of the company. Shareholders of the company in contrast may be rewarded by the payment of dividends on their shares.

Tax Tip
In most small companies the directors and shareholders are one and the same and so they can choose the most tax efficient way to pay themselves. Using dividends can result in savings in NIC. This requires planning. Please talk to Taxfish Planning to decide the best options for you.

Tax on profits
The profits of a limited company are calculated in a similar way as for unincorporated businesses and the same rules about expenses and capital allowances generally apply. Remember though that the salaries paid to directors, but not the dividends paid to shareholders, are deductible from the profits before they are taxed.

Tax Planning
In recent years companies have become more popular as they have usually resulted in less tax being paid overall. Tax rate changes year on year mean that this will not always necessarily remain the case.

This issue is complex as the comparison calculations have to take into account current and future government proposals on income tax and NIC rates. Do get in touch if you would like Taxfish Planning to review your particular circumstances

Payment of tax
PAYE and NIC on salaries is payable monthly (or quarterly where the amount due is less than £1,500 per month).

Corporation tax is usually payable nine months and one day after the year end, so the choice of accounting date has no tax consequence.

Practical Tip
HMRC issue toolkits on various tax topics to help taxpayers and their agents comply with tax law. One of the main areas of non compliance identified by HMRC is poor record keeping and this applies to all types of business. If you would like guidance on what records to keep please get in touch with Taxfish Planning.

Income shifting
Over recent years, many families have been attracted by the savings that can be made by combining small salaries and large dividends. The savings could be increased by introducing a non-working family member into the business as a shareholder or co-owner, to use up their personal allowance and lower rates of tax.

Proposed new rules aimed at counteracting this were due to be introduced from 6 April 2009 but have been shelved for the present. Care still needs to be taken as aspects of the existing 'settlements legislation' could still be used to challenge certain arrangements. If you have any questions or concerns, please do not hesitate to contact Taxfish Planning.

Value added tax (VAT) and your business
VAT is a tax ultimately paid by the final consumer and businesses act as the collectors of the tax. There are heavy fines for failing to operate the system properly.

What does VAT apply to?
VAT is chargeable on the supply of goods and services in the UK when made by a business that is required to register for VAT.

A registered business must charge VAT on its sales which is known as output VAT. There are currently three rates of VAT which can be payable on what are known as taxable supplies. These are the standard rate of 20%, the reduced rate of 5% and the zero rate.

The zero rate applies where the supply is deemed to be subject to VAT but the output VAT is charged at 0%, meaning that no VAT is actually payable.

However, a business also pays VAT on the goods and services it buys. This is known as input tax. If the output tax exceeds the input tax, then a payment of the difference has to be made to HMRC. This calculation is normally done quarterly. If input tax exceeds output tax a repayment of VAT will be made. This calculation is also done quarterly except that if repayments occur regularly this can be done monthly. Regular repayments would perhaps apply where a business generally makes zero rated supplies.

Supplies
Certain supplies of goods and services are not subject to VAT at all and are known as exempt supplies. A business that makes only exempt supplies cannot register for VAT and will be unable to reclaim any input tax.

Tax Tip
When you first register for VAT you can reclaim input tax on goods purchased up to three years prior to registration provided they are still held when registration takes place. VAT on services supplied in the six months prior to registration may also be reclaimed.

As there are three rates which can be applicable to taxable supplies, standard, reduced or zero rated, it is important to identify the type of supplies correctly and apply the correct percentage of VAT.

Some input VAT is not reclaimable by a VAT registered business. Two common examples are VAT incurred on entertaining business customers and VAT on the purchase of a car.

Do I need to register?
A business must register if its taxable supplies exceed an annual figure, currently £73,000. If taxable supplies are less than this a business may still register voluntarily. So, for example, if the business makes only zero rated sales, it can still register and reclaim the input tax suffered.

Since 1 April 2010 all new businesses that register for VAT and businesses already registered with a turnover exceeding £100,000 have to file their VAT returns online. Additionally, any VAT due will need to be paid online as well. Online filing and payment will be extended to all businesses from 1 April 2012.

VAT can affect competition. A plumber, for example, who sells only to the general public, will be at a disadvantage if he has to register for VAT. He may have to charge up to 20% more than a plumber who is not registered to earn the same profit.

On the other hand, if the same plumber only works for other VAT registered businesses, such as building companies, then it will not matter whether he is registered because the customer will be able to recover the VAT that is charged.

Indeed, in general, a business that always sells to other VAT registered businesses will normally register, even if below the annual limit, because then it can reclaim VAT on purchases and expenses.

This will improve profit and can be especially relevant for new businesses because there are often high initial set up costs that carry VAT.

On the other hand registration comes at the cost of having to meet onerous record keeping requirements, a need to submit VAT returns on time and a fundamental need to get it right!

Failure on any of these points exposes the business to penalties which, in some cases, can be substantial.

Tax Planning
You should consider carefully whether to register voluntarily. If the VAT at stake is relatively small the responsibilities of registering may outweigh the benefit.

Practical Tip
There are various VAT schemes designed to reduce administration and/or improve cash flow for the smaller business so do contact Taxfish Planning for further information.

Tax and Your Investments

Setting aside income in the form of savings is important for us all, to provide for the unexpected or to build up a nest egg that we can enjoy in retirement. Given that the earnings from which our savings come have already been taxed, people often object to the fact that any return they enjoy on their investments will usually be taxed again.

In this section we consider what are the most tax efficient investments to make.

Pensions

Pensions are one of the most tax efficient forms of saving. A higher rate taxpayer can contribute £100 to a registered pension fund at a cost of only £60 and investment income and capital gains will accrue within the scheme largely tax free. For additional rate taxpayers the savings are even higher with a £100 contribution effectively costing £50.

An individual is entitled to tax relief on personal contributions in any given tax year up to the higher of 100% of earned income or £3,600 (gross).

The contributions are paid net of basic rate tax and the pension provider will then recover that basic rate tax from HMRC. Higher and additional rate relief, if appropriate, can be claimed from HMRC. Contributions in excess of the individual's limit can be made into a scheme but the excess will not attract tax relief.

An employer may make contributions to a scheme and a deduction from profits may be available to the employer.

As these reliefs are generous, there are controls which serve to limit high levels of contribution. These are complex but, put simply, they will give rise to a tax charge if annual contributions result in an increase in pension rights for a year of more than £50,000 (for 2011/12) or if the value of the fund when benefits are taken is greater than a lifetime allowance which, for 2011/12, is £1.8 million.

Various options are available on and throughout retirement with regard to taking pension entitlement. The most common being to take part of the fund, normally 25% as a tax free lump sum and the balance is then used to buy a taxable life annuity.

Tax free savings

Individual Savings Accounts (ISAs)

ISAs are free of income tax and capital gains tax. There are maximum investment limits which apply for each tax year but, over several years, large investments can be built up. The ISA can be in stocks and shares or cash but most ISA providers invest solely in stocks and shares. Banks and building societies provide cash ISAs.

Individual Savings Accounts		
		2011/12
Overall investment limit		£10,680
Comprising	- cash up to	£5,340 max.
	- balance in stocks & shares	Overall £10,680 max.

Other tax efficient investments

The following investments work in varying ways. You should consider your needs in detail before entering into any commitments.

National Savings and Investment (NS&I)
There are a number of products, taxed in different ways, but some, such as savings certificates, are tax free.

Premium bonds
Another NS&I product, premium bonds, is tax free and you could win £1 million!

However, the annual rate of return is a lottery. The more you invest (maximum £30,000) the more frequently you are likely to win, the smaller prizes at least. However, there is no guarantee of a steady rate of return and other savings vehicles may be more suitable.

Practical Tip
Interest paid to individuals by banks and building societies will have tax deducted at 20%. If you do not pay tax you can sign a form to have the interest paid gross. If you have suffered tax but are not liable for it, you can make a repayment claim.

Single premium insurance bonds
These provide a means of deferring income into a subsequent period when it may be taxed at a lower rate.

The Enterprise Investment Scheme (EIS)
Income tax relief at 30% (subject to State aid approval) is available on new equity investment (in qualifying unquoted trading companies) of up to £500,000 in 2011/12. A capital gains tax exemption may be given on sales of EIS shares held for at least three years. If the proceeds realised on the sale of any chargeable asset (e.g. quoted shares, second homes, etc) are reinvested in EIS shares, the gain on the disposal can be deferred.

Tax Planning
It is also possible to obtain income tax relief in the previous tax year for qualifying purchases. Shares acquired up to the annual limit of £500,000 at any time in the current tax year may be carried back for tax relief. This may be beneficial where tax relief would otherwise not be obtained due to a low current tax year liability.

Venture Capital Trusts (VCT)
These bodies invest in the shares of unquoted trading companies. An investor in the shares of a VCT will be exempt from tax on dividends and on any capital gain arising from disposal of the shares in the VCT. Income tax relief currently at 30% is available on subscriptions for VCT shares, up to £200,000 per tax year, so long as the shares are held for at least five years.

Property Matters

In recent years, the stock market has had its ups and downs. Add to this the serious loss of public confidence in pension funds as a means of saving for the future and it is not surprising that investors have looked elsewhere.

Buy to let

The UK property market, whilst cyclical, has proved over the long-term to be a very successful investment. This has resulted in a massive expansion in the buy to let sector. Buy to let involves investing in property with the expectation of capital growth with the rental income from tenants covering the mortgage costs and any outgoings.

However, the gross return from buy to let properties - i.e. the rent received less costs such as letting fees, maintenance, service charges and insurance - is no longer as attractive as it once was. Investors also need to take a view on the likelihood of capital appreciation exceeding inflation. Investors should take a long-term view and choose properties with care.

Practical Tip

When choosing between investments always consider the differing levels of risk and your requirements for income and capital in both the short and long term. An investment strategy based purely on saving tax is not appropriate.

Which property?

Investing in a buy to let property is not the same as buying your own home. You may wish to get an agent to advise you of the local market for rented property. An agent will also be able to advise you of the standard of decoration and furnishings which are expected to get a quick let.

Letting property can be very time consuming and inconvenient. Tenants will expect a quick solution if the central heating breaks down over the bank holiday weekend! Do not cut corners - a correctly drawn up tenancy agreement will ensure the legal position is clear.

Tax on rental income

Income tax will be payable on the rents received after deducting allowable expenses. Allowable expenses include mortgage interest, repairs, agent's letting fees and an allowance for any furnishings provided.

Disposal

Where property is disposed of capital gains tax (CGT) will generally be payable. This is payable on the difference between the sale proceeds and the original cost. Where property has been improved then these capital costs are also available to reduce the value of the gain. The CGT annual exemption results in the first £10,600 of gains, for 2011/12, being tax free. CGT is payable at 18% or 28% on gains depending on the level of your income. This is further explained in the next chapter.

Main residence
An individual's or married couple's only or main residence is generally exempt from CGT. The exemption extends to grounds of up to half a hectare provided this is not used for any other purpose. There must also be clear evidence of occupation as a main residence and not just ownership.

Tax Planning
Larger grounds may also be exempt as can the sale of part of the garden or grounds for development. However, professional advice is recommended to plan for the best outcome.

Subject to exceptions, periods of absence are chargeable but, if the main residence was let during absences, as a result of which a charge arises, a 'letting relief' may apply to reduce the chargeable gain.

More than one residence
Where an individual (or married couple) have two or more residences, only one residence at any one time can be treated as the main home for exemption. This is done by an election. Provided a particular residence has been the main home at some time, then the last three years of ownership will always be exempt. This applies even if another residence has now become the main home during this time.

Example
Joe has a house in Luton which is his principal private residence and which he has owned for eight years. Fed up with commuting he buys a flat in central London and elects for this to be his main residence. Exactly five years later he sells his home in Luton.

The Luton home is exempt for the first eight years whilst he was living in it and for the last three years because, even though he had another home which was his main residence during this time, the last three years is always exempt provided the home in question qualified as the main residence at some point.

11/13 of the gain on the Luton home will be exempt from capital gains tax. Upon the eventual sale of the flat the whole of that gain will also be exempt.

The main residence exemption can be complex and often causes a good deal of misunderstanding. Please contact Taxfish Planning or Taxfish Property (for Property Investors) for further advice before making transactions in property.

Inheritance tax (IHT)
The general growth in house prices over the last three decades, in particular, has caused real IHT worries. This is because retaining the family home in the estate when it is often the largest asset could result in an IHT liability of up to 40%. At the same time, finding a way to deal with it efficiently for IHT is difficult because individuals need a place to live.

There have been many schemes devised to solve the problem and HMRC have successfully tackled many of these.

It may still be possible to plan to mitigate some of the effect of the value of the family home particularly by careful planning using Wills. An important prerequisite of such arrangements is

that the property, if occupied by spouses or civil partners, should be owned jointly in such a way that there is no automatic transfer to the survivor on the first death. This means that each spouse, or civil partner, has a clearly defined legal interest in the property which can be left according to their Will and does not automatically fall into the ownership of the survivor.

The legal systems in the different legal jurisdictions in the UK achieve this in technically different ways but each allows for this approach. Please get in contact if you need further information.

Disposals & Capital Gains Tax (CGT)

Introduction

Making the most of your investments requires some understanding of CGT. CGT arises on the sale of most assets and, subject to various reliefs and exemptions, is payable on the difference between the sale proceeds and the original cost. The CGT annual exemption results in the first £10,600 of gains, for 2011/12, being tax free. CGT is payable at 18% where total taxable gains and income, after taking into account all allowable deductions including losses, personal allowances and the CGT annual exemption are less than the upper limit of the income tax basic rate band (£35,000). CGT payable at 28% applies to gains or any parts of gains above this limit. These rates do not apply to gains eligible for Entrepreneurs' Relief (see below). Such gains remain chargeable at 10%.

Certain other CGT reliefs allow chargeable gains to be deferred for a period of time such as gains deferred under the Enterprise Investment Scheme. In working out the CGT due, taxpayers will be able to deduct losses and the annual exemption in a way which minimises the tax due. Some assets are exempt from CGT such as motor cars (including classic cars), personal goods such as jewellery or antiques sold for less than £6,000, UK government bonds and, crucially, your only or main home.

Where a gain is chargeable, there are a number of reliefs which could be considered mainly in relation to business assets. Such reliefs are mainly used to defer tax until a later date rather than reduce the gain permanently. Entrepreneurs' Relief is the exception.

Entrepreneurs' Relief

Qualifying gains are taxed at a 10% rate of tax. In addition the amount of gains that can qualify for relief has been increased since it was introduced in April 2008. The original £1 million lifetime limit was increased twice in 2010/11 initially to £2 million then £5 million. The limit from 6 April 2011 is now £10 million.

Example

An individual who had previously used his £1 million limit in 2009/10 on an eligible gain of £1.5 million will not be able to backdate the increase in the limits to the earlier tax year but he now has £9 million capacity for future qualifying business disposals.

Qualifying business disposals include:

1. qualifying shareholdings
2. the whole or part of an unincorporated business
3. disposal of assets on cessation of a business.

There also needs to be a qualifying period of ownership of one year up to the disposal. Where an individual makes a qualifying business disposal, relief may also be available on an 'associated disposal'. An 'associated disposal' is a disposal of an asset:

1. used in a qualifying company or group of companies of the individual or
2. used in a partnership, where the individual is a partner.

The ‘associated disposal’ must be part of the withdrawal of the individual from participation in the business and the available relief may be diluted due to various restrictions. Trustees may benefit from the relief but only in very limited circumstances.

Tax Planning

Specific detailed conditions apply for each type of qualifying business disposal and any associated disposal.

It is essential, to maximise reliefs, that various conditions are met over a period of time prior to any such disposals, so please contact Taxfish Planning if this is likely to affect you in the future.

Preserving the Inheritance

Inheritance tax (IHT) has some unique features. It is easy to collect because the authorities meet with least resistance but, conversely, it is relatively easy for wealthy taxpayers to at least minimise it, if not avoid it altogether, and consequently IHT is sometimes referred to as a voluntary tax.

Nonetheless planning to minimise IHT is something that many put off until it is too late and early attention to this tax is almost always worthwhile.

The threshold for IHT (also called the nil rate band) is currently £325,000 and is set to remain frozen at this level until 6 April 2015. Modest growth in the next few years could mean that more estates fall within the charge to IHT following the freezing of this threshold and even if your assets are worth less than this you should consider making a Will so that you choose who gets your assets after your death.

The current regime

The key points of the current regime are as follows:

1. IHT is charged on a person's estate when they die and on certain gifts made during their lifetime
2. the rate of tax on death is 40% and 20% on lifetime chargeable transfers. The first £325,000 is not chargeable
3. some lifetime gifts are treated as 'potentially exempt transfers' or PETs. So long as the donor lives for at least seven years after making the PET there will be no possibility of an IHT charge whatever the size of the gift
4. there are numerous exemptions and reliefs.

So what's the problem?

IHT is still a problem because:

1. many are simply not in a position to make substantial lifetime gifts because it will leave them with insufficient capital to live on. As a consequence there is likely to be significant value retained in estates on death.
2. although the average price of a house in the UK is currently only around £206,000, many individuals do have a property which exceeds this in value and this means that the house alone will use up the bulk of the nil rate band and any excess remaining assets, such as investments and cash reserves, may be charged to IHT at 40%.

It is important therefore to consider ways of reducing any potential IHT liability.

Mitigating the liability

Do not waste your exemptions. Regularly using IHT exemptions will build up funds outside of the estate without incurring an IHT liability.

A husband and wife can each take advantage of the exemptions, the main ones being:

1. an annual allowance of £3,000 per donor per year. This can be carried forward for one year only if unused
2. small gifts not exceeding £250 in total per donee per tax year
3. gifts made out of income that are typical and habitual
4. gifts made in consideration of marriage up to £5,000 if made by a parent, £2,500 by grandparents and £1,000 by others
5. gifts to charities whether made during lifetime or on death
6. gifts between spouses and registered civil partners, whether made during lifetime or on death.

Practical Tip

It is important to review Wills where an individual is to marry. In England and Wales in fact, marriage invalidates any existing Will but this is not the case in Scotland.

Planning in lifetime

If possible you should make absolute gifts in lifetime. A gift to an individual will be a PET so there will be no liability if the donor survives seven years. Even if the donor fails to survive for all of that period there will be a tax saving because the charge which will arise on the PET will be based on the value of the asset when it was originally gifted and not on the value at the date of death. If the value of the gift is below the threshold there will be no charge. If any tax is due it may be reduced to reflect the actual period between the dates of the gift and death.

Tax Planning

Each spouse/civil partner can take advantage of the IHT nil rate band. Furthermore gifts between them are exempt. Therefore it pays to use this exemption to broadly equalise estates so that both partners can make full use of exemptions and the nil rate band.

Remember that you cannot continue to benefit in any way from the asset gifted because this will render the gift ineffective for IHT purposes. You cannot, for example, give away your home to your children but continue to live in it rent free.

Use available reliefs

Important reliefs of up to 100% are available on business assets such as shares in a family trading company or on agricultural property. It is important that these reliefs are utilised because once the asset concerned is sold the relief will be lost. They can only be used in connection with transfers that are chargeable to IHT.

In lifetime it may be worth considering transfers of such assets into trusts for members of the family.

On death such assets should not automatically be left to the surviving spouse because that transfer will be exempt and, if the survivor subsequently sells the asset, the relief will have been wasted.

Consider using trusts
Trusts can provide a way of reducing IHT liabilities not just for the donor but also for the donee. The rules are complex but significant tax savings can be achieved with careful planning. In particular, trusts can be an effective way of using important reliefs on businesses and agricultural properties.

Use the nil rate band on death
On death, assuming the nil rate band has not already been utilised in the last seven years, it pays to ensure that it is not wasted. In recent times the rules have been altered to allow any unused nil rate band on the death of the first spouse to be transferred to the estate of the surviving spouse.

Example
Tom died leaving the whole of his estate of £800,000 to his wife Pru. A few years later Pru died leaving her whole estate of £900,000 to her children.

Under the current rules, the portion of any nil rate band unused on the death of Tom will be allowable against Pru's estate. In this case as Tom's estate was left to Pru, none of his nil band was utilised, so 100% is available. This is in addition to Pru's own nil rate band. Using the current rates the IHT payable on Pru's death is based on £250,000 (£900,000 - [£325,000 x 2]).
Whilst the rules help many married couples, better planning could completely eliminate the IHT bill.

Discretionary Will trust
Couples with modest estates find it hard to leave the nil rate band to children in their Will since that may leave the surviving partner short of funds.

This can be overcome by the use of Discretionary Will trusts.

Put very simply, the Will leaves an amount equal to the nil rate band into a discretionary trust and the remainder can pass to the surviving spouse.
There will be no IHT payable on the death of the first spouse. The trustees will be given powers to pay income or capital to the surviving partner from the trust in the event that funds are needed.

On the death of the surviving partner this discretionary trust is outside of their estate and any assets owned in the surviving parties own right will attract the nil rate band.

Tax Planning
Using trusts can provide an effective means of removing assets from an estate but still allow flexibility in their ultimate destination and allow the donor to retain some control.

Some trusts are quite tax efficient but recent changes have somewhat limited this effectiveness. Contact Taxfish Planning for more advice on this area.

Make a Will
If you die without a Will, the intestacy provisions will apply and may result in your estate being distributed in a way you would not have chosen. Keep your Will up-to-date to reflect changes in the family situation. In particular Wills need to be reviewed and amended as necessary on marriage or on divorce. The precise position depends on whether English or Scots law applies.

Use life assurance
Life assurance arrangements can be used as a means of removing value from an estate and also as a method of funding IHT liabilities. A policy can be arranged to cover IHT due on death. It is particularly useful in providing funds to meet an IHT liability where the assets are not easily realised, e.g. family company shares.

Tax Planning
Do you have a Will?
Where is it kept - do you and your family know?
Is it up to date?
Does your Will make full use of IHT exemptions and reliefs?
Do you have adequate life assurance?

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