

# New Year Tax Planning Resolutions



## Personal and family tax planning

- 1 Take advantage of the increased Individual Savings Account (ISA) investment limits and generate tax-free income and capital gains.** The maximum annual amount that can be invested in an ISA will increase on 6 April 2010 from £7,200 to £10,200. But if you were born before 6 April 1960, you have been able to invest up to £10,200 in an ISA since 6 October 2009. Half of the maximum can be in a cash ISA with the remainder invested in a shares ISA. As there are many ISAs on the market, it is worth shopping around to find the best deal, taking account of the rates of return and fees charged.
- 2 Contribute up to £1,200 each year into your child's tax-free Child Trust Fund savings account.** The fund builds up free of tax on investment income and capital gains until the child reaches 18, when the child can withdraw the funds or roll them into a tax-free ISA. Every child living in the UK and born after 31 August 2002 should receive a voucher from HM Revenue & Customs (HMRC) to open a Child Trust Fund.
- 3 Check your PAYE code.** Up to a quarter of all PAYE codes are incorrect when first issued. HMRC may have included an estimate of your unearned or other income for the year, which means you will pay tax on that income far earlier than you would otherwise through your self-assessment tax return. You can ask HMRC to remove this estimated income and correct any other errors.
- 4 Make large pension contributions.** There is an annual allowance of £245,000 in 2009/10. You and your employer between you can contribute up to this amount, but you personally cannot contribute more than 100% of your earnings for the year. Even if you have no earnings, you can benefit from tax relief on gross contributions of £3,600 in any tax year. If your income is more than £130,000, you may suffer a tax charge on pension contributions that exceed £20,000, so take specialist advice.
- 5 Look to minimise the impact of the introduction of the additional rate of tax.** From 6 April 2010, income over £150,000 will be taxed at 50%. The additional rate will be 42.5% on dividend income. You might be able to restructure the ownership of income-producing assets between spouses or civil partners to ensure that neither of the couple has income exceeding £150,000. In the case of a partnership, you might be able to revise the profit sharing arrangements to achieve a similar result. You could use similar processes to minimise the impact of the reduction of the income tax personal allowance where income exceeds £100,000 from 6 April 2010.
- 6 Invest in assets that produce gains subject to capital gains tax (CGT) at 18% rather than income taxed at up to 50% (from 2010/11).** You can make gains of £10,100 in 2009/10 before you have to pay any CGT. Review your investments to see what proportion could be held in assets that come under the CGT regime – eg shares, unit trusts, and investment trusts. But bear in mind the extra risk that might be involved in capital growth-based investments. The value of share-based investments can go down as well as up, and past performance is not a reliable indicator of future performance.

## Business and property tax planning

**7 Incorporation can still be worthwhile.** Despite recent changes in rates of corporation tax, a business with profits of around £50,000 can still save tax and national insurance of some £3,700 by trading through a company and taking most of your earnings as dividends, compared with operating as a sole trader. This needs to be balanced against the additional administration and compliance costs resulting from the operation of a company.

**8 Take advantage of the temporary 40% first-year allowance.** Any business, regardless of size, can claim the 100% Annual Investment Allowance (AIA) on the first £50,000 spent on plant or machinery (subject to certain exclusions). Any additional expenditure qualifies for a writing down allowance (WDA) of 20% or 10%. However, businesses incurring expenditure in the 12-month period ending on 31 March 2010 (companies) and 5 April 2010 (sole traders and partnerships) in excess of the AIA cap that would normally qualify for a 20% WDA can claim a 40% FYA instead.

**9 Claim a tax rebate for any losses you make.** Special provisions allow losses made by companies in periods ending in the two years to 23 November 2010 to be set against profits made in the previous three years, using profits of later years first. Tax paid for those earlier years can be reclaimed, although the amount of loss carried back more than one year is capped at £50,000. Losses made by unincorporated businesses in the accounting periods ending in the tax years 2008/09 and 2009/10 can similarly be carried back up to three years.

**10 Choose the right company car and reduce your tax.** You can set the full cost of buying a new company car against your company's profits, if you choose one from with a CO<sub>2</sub> emissions rating of 110 g/km or less. And as the driver, you will also benefit from a lower income tax charge.

**11 Buy green equipment and save tax.** Choose an energy-efficient or water-efficient item, even basic fittings such as lighting, heat pumps or toilets, and it could qualify for an enhanced capital allowance. You could then set the full cost of the new equipment against your taxable profits in the year you bought it. Check which items qualify on [www.eca.gov.uk](http://www.eca.gov.uk).

**12 Do not forget to claim for the costs of your travel to your investment property.** HMRC will allow you mileage for journeys to carry out inspections, repairs, or any other tasks your managing agent does not perform.

**13 Act quickly to claim tax relief for overseas holiday properties.** Where you have run a commercial holiday lettings business with one or more properties situated in Europe, you could claim relief for losses made against your UK income. You could also claim tax relief if you made a gain since 6 April 2003 when selling a property you used for the holiday letting business. However, you must act quickly as these special tax reliefs are being withdrawn from April 2010.

**14 Remember tax reliefs and rules can be changed with little or no notice.** For example, a few years ago the provision of tax-free computer equipment to employees was stopped with only two weeks' notice. This sort of event may become more prevalent in the future as the government takes steps to manage the budget deficit. So be as flexible as possible with your tax planning, and have a back-up plan in case a scheme or tax relief is withdrawn.

