



## HOT ISSUES – Private Clients

### Simple but effective tax planning tips

Whether you are an individual in employment, in business or retired there are a number of relatively simple tax planning points to consider to help you manage your tax liability:

- Married couples and civil partnerships should consider the distribution of income and assets between partners – to utilise annual exemptions of both partners and lower tax rates of either partner.
- Small company owners should consider how to remunerate themselves from their company – i.e. salary or dividend as different tax rates apply to both along with other impacts such as pension contributions.
- Business owners should review whether they are maximising capital allowances. E.g. 100% allowances are currently available on £100,000 of spend (on most assets) and on energy saving and environmentally beneficial plant.
- Tax beneficial investments such as ISAs and the higher risk Enterprise Investment Scheme and Venture Capital Trusts may be considered.

### Pension planning

Investing in a pension plan is usually worthwhile due to very favourable tax concessions. Pension funds are basically free of UK tax on their capital gains and investment income. When you ultimately take the benefits, up to 25% of the fund is normally tax free.

The annual allowance on contributions to pensions is currently £50,000. Unused annual allowances of up to £50,000 per year can now be carried forward for three years. However, the rules are complex so you should take advice.

### Entrepreneurs Relief

Entrepreneurs relief in relation to capital gains tax is currently an extremely valuable relief. In short, capital gains qualifying for this relief will only be subject to a capital gains tax rate of 10% compared to the percentage for higher rate tax payers of 28%.

Entrepreneurs relief is based on a lifetime allowance – currently set at £10m. The relief applies to disposals of businesses and business assets. However, the rules for eligibility are complex and it should not be assumed that the relief will apply automatically.

### Capital Gains Tax and Inheritance Tax planning

#### Capital Gains Tax (CGT)

Every individual has an annual exemption (2011/12 - £10,600). Gains above the annual exemption will be taxed at 18% or 28% depending on the level of other income. Some planning considerations:

- Married couples and civil partners should maximise the use of both partner's annual exemption by transferring assets between them prior to disposal.
- Consider deferring disposals to post 5 April to obtain a cash flow advantage as CGT on gains is paid on 31 January following the tax year of disposal.
- Consider realising capital losses to offset gains if gains are above the annual exemption.

#### Inheritance Tax (IHT)

Upfront IHT planning could save significant amounts of tax on death.

- Every individual has an annual exemption of £3,000 so lifetime gifts up to this amount each year are tax free. Unused exemptions can be rolled forward for one year.
- The rules around lifetime gifts are complex and you should seek advice. However, there is the opportunity to make lifetime gifts to reduce your estate. If you survive these gifts by at least 7 years they will not be taxed on your death.

**Call us now to discuss these or any other issues:**

**Richard Stonier**

**(01785) 238153 - [rstonier@deanstatham.com](mailto:rstonier@deanstatham.com)**

