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# Tax Matters

## Keeping the year end in mind

Next April may seem a long way off, but in tax planning terms it is never too early to start thinking about year-end opportunities. This article considers some of the planning options available to individuals before 5 April 2012.

### Don't waste personal allowances

If your spouse or partner has little or no income, consider transferring income to them. For example, transferring an income producing asset or giving them shares in a family company which pays dividends will ensure that personal allowances are being utilised.

Similarly, it is costly for one spouse or civil partner to be paying tax at 50% and the other at only 20%. Equalising income where possible ensures that the basic and higher rate bands are not wasted, thereby reducing the overall combined tax bill.

The personal allowance is abated where income exceeds £100,000 (being reduced by £1 for every £2 of income over £100,000) and is lost completely once income reaches £114,950. Consider reducing income to below £100,000, for example by making pension contributions, donating to charity or, as mentioned above, transferring income producing assets to a spouse or civil partner. Other strategies can include delaying bonus or dividend payments.

### Make pension contributions

Pension contributions can be made up to 100% of income, subject to the annual allowance of £50,000. Unused allowances (up to £50,000 per year) can be carried forward for up to three years. Unused allowances from 2008/09 will be lost unless used by 5 April 2012.

### Take advantage of tax-efficient saving opportunities

For 2011/12 it is possible to invest up to £10,680 in an Individual Savings Account (ISA), of which £5,340 can be in cash, with any balance in stocks and shares. Investments must be made by 5 April 2012 or the ISA allowance for 2011/12 will be lost. You might also want to consider other tax-efficient options such as investments in Venture Capital Trusts and the Enterprise Investment Scheme.

### Use the capital gains tax (CGT) exempt amount

For 2011/12 an individual is allowed to make capital gains of up to £10,600 before CGT is payable. If the limit is unused and sales of capital assets are planned, consider accelerating the sale to before 6 April to take advantage of the exempt amount. Spouses and civil partners can transfer assets between them on a no-gain no-loss basis, which enables both parties' annual exempt limit to be utilised.

### Use the inheritance tax gifts allowance

The annual inheritance tax exemption for gifts is £3,000 for 2011/12.

Any unused allowance for 2010/11 may be brought forward for use after the 2011/12 allowance has been exhausted. Consider making gifts up to this limit to ensure that the allowance is not wasted. Gifts covered by the exemption do not form part of the estate for inheritance purposes.



**The success of any tax planning will depend on your individual circumstances, and it is essential to consider the bigger picture. Please contact us for advice tailored to your requirements.**

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Winter  
2011/12

# Employee benefits – save on tax

The tax system contains a number of exemptions that make it possible to reward employees, at least in part, in a way that is free of tax and national insurance. There are also benefits for the employer, who may be able to save employer national insurance contributions (NICs) in the process.

Here we examine some of the more popular tax-efficient benefits. Please note, however, that the availability of any exemption is contingent on the associated conditions being met.

## Mobile telephones

Mobile telephones are arguably one of the most popular tax-free benefits. The exemption is limited to one mobile phone per employee. For the exemption to apply, the employer must provide the mobile phone for the employee's private use rather than reimbursing the costs of the employee's own phone. To be within the terms of the exemption the contract must be between the employer and the phone provider. However, the exemption does extend to the provision of a SIM card to be used in the employee's own mobile phone.

## Childcare vouchers and employer-supported childcare

Employers can provide childcare vouchers and/or employer-supported childcare, such as a place in a private nursery, free of tax, providing that it is within the exempt amount. Employees who joined a scheme before 6 April 2011 are entitled to an exempt amount of £55 per week on which tax relief is given at the employee's marginal rate of tax. Where the employee joined the scheme on or after 6 April 2011, the exempt amount depends on the employee's marginal rate of tax.

The monetary value of the exemption is £55 per week for basic rate (20%) taxpayers, £28 per week for a higher rate (40%) taxpayer and £22 per week for an additional rate (50%) taxpayer. In each case the benefit is worth around £11 per week. Where care is provided in a workplace nursery, there is no limit on the exemption.

## Health screening and eye tests

Employers can provide employees with one health screening and one medical check-up per tax year without liability. A separate exemption applies to eye tests, which the employer is required to provide under Health and Safety legislation, and/or corrective glasses for using computer monitors.

## Small loans

Although a tax charge arises in respect of the provision of low interest and interest-free employment-related loans, an exemption is available for small loans, provided that the balance outstanding does not exceed £5,000 at any point in the tax year. In times of economic hardship this can be a valuable benefit, providing the employer with the means to help an employee over a difficult period without triggering a tax charge. However, a tax charge will arise if the loan is written off.

## Christmas parties

The exemption for Christmas parties and similar functions is well known. Employees can enjoy the benefit of a tax-free bash (or several smaller functions) provided that the cost per head is not more than £150. However, if the cost per head exceeds the £150 threshold, the full amount is taxable, not just the excess over £150. The £150 limit applies per head, not per employee, meaning that guests are taken into account when calculating the cost per head figure.

## Other benefits

There are many other potentially tax-free benefits available, including: tea, coffee and subsidised meals; employer-provided bicycles; zero-emission cars; car parking spaces; suggestion schemes; and long service awards.

**For further information and advice on the tax-free benefits available, please contact us.**

## Could your business benefit from R&D relief?

Corporation tax relief is available on research and development (R&D) revenue expenditure at varying rates. Recent changes to the relief, together with reforms planned for 2012, mean that this may be an attractive benefit for many small and medium-sized enterprises (SMEs). Here we focus on the relief that is available for SMEs.

### Small and medium-sized companies

The SME scheme applies to companies with fewer than 500 employees and either of the following: an annual turnover not exceeding 100 million euros; or a balance sheet not exceeding 86 million euros.

The scheme provides relief for companies that spend at a rate of at least £10,000 on qualifying R&D costs in an accounting period. Subject to further consultation, the minimum expenditure limit of £10,000 will be removed from 1 April 2012 and relief will thereby be extended to lower levels of qualifying R&D expenditure.

SME relief is capped at 7.5 million euros per project and subject to the most recent accounts having been prepared on a going concern basis. From 1 April 2011, relief under the SME scheme is given at a rate

of 200% of the actual qualifying R&D expenditure. However, from 1 April 2012, the rate of relief under the SME scheme is set to increase by 25% to 225% of qualifying R&D expenditure.

### Qualifying expenditure

Relief is only given for R&D projects which seek to achieve 'an advance in overall knowledge or capability in a field of science or technology', through the 'reduction of scientific or technological uncertainty'. There are some restrictions on the areas of innovation that may qualify, so please contact us for details.

In addition, the project must be related to the company's organisation or trade. This can be an existing organisation/trade or one that the company intends to start up based on the R&D.

### Claiming R&D relief

Where the project meets the definition of R&D, relief can be claimed on the associated revenue expenditure. Broadly, this is expenditure on the day-to-day running of the project. You will need to keep track of the following types of expenses connected with the project: employee costs; payments to staff providers; material costs; and payments for clinical trials, utilities and computer software used directly in the R&D.

Relief under the scheme is not given for capital expenditure (although capital allowances may be available).

**If appropriate, we can help you make a claim for R&D relief via the Corporation Tax Return.**

# Minimising the inheritance tax burden



With recent reports suggesting that HMRC is investigating inheritance tax (IHT) claims more thoroughly than ever before, proper IHT planning is becoming increasingly important for many people. The tax is payable from your estate, so if you want to make sure that the taxman's slice is kept to the minimum, you need to start planning now.

When you die, IHT will be charged on your personal wealth, together with some or all of your lifetime gifts made in the preceding seven years.

IHT is currently payable at 40% where a person's wealth is in excess of the nil-rate band – set at £325,000 for 2011/12. So if you have an estate worth £500,000, £175,000 is taxed at 40%, meaning the IHT bill would be £70,000.

The nil-rate band has been frozen at £325,000 (£650,000 for married couples) until 5 April 2015.

## The seven-year rule – 'potentially exempt transfers'

Most gifts made during your lifetime will be entirely exempt from IHT if you live for seven years after making the gift. These sorts of gifts are known as 'Potentially Exempt Transfers' (PETs).

Taxable gifts made up to seven years before death are added back into your estate and tax is calculated on the inclusive value. But to the extent that such lifetime gifts made between three and seven years before death exceed the tax threshold, the associated tax is discounted by up to 80%.

## Reducing the IHT bill

Minimising your IHT liability should form an important part of your tax planning. Consider the following strategies to help reduce the IHT burden.

### Use your annual allowances

The annual exemption allows you to give away cash or assets up to the value of £3,000 a year without incurring any taxes. Any regular gifts you make out of your after-tax income, not including your capital, are also exempt from IHT (providing you have enough income left after making them to maintain your normal lifestyle).

And don't forget, small gifts of up to £250 a person per tax year are exempt, while parents can give up to £5,000 to each of their children as a wedding/civil partnership gift (grandparents can give up to £2,500 and others can give up to £1,000).

### Transfers of assets

Transfers of assets between spouses and civil partners are exempt from IHT, but other lifetime gifts may be more tax-efficient.

Note, transfers on or within seven years of death to a spouse domiciled outside the UK are exempt only to the extent of £55,000.

### Lifetime gifts

Lifetime gifts are potentially exempt from IHT, and there is no limit on such transfers, so this is an excellent way of transferring assets that you do not need to keep in your estate. It may be advisable to cover substantial gifts by insurance against death within seven years.

### Trusts

Trusts let you transfer assets out of your estate for IHT purposes, but enable trustees to exercise some degree of control over the capital or income (and you can be a trustee). There may be an IHT charge, but this would be at 20%, and then only if the transfer is over £325,000 (2011/12). Under current rules, a further tax charge at up to 6% will then be levied on the withdrawal of funds or at 10-yearly intervals.

### Write a Will

A well-drafted Will can ensure that the wealth you have built up during your lifetime benefits the right people on your death – and it can also be structured to save tax.



### Life assurance policies

Life assurance policies (unless designed to cover IHT liabilities) should be assigned during your lifetime so that the proceeds do not form part of your estate on death.

### Charitable giving

A reduced rate of 36% will apply from April 2012 to death estates where 10% or more of the net estate is left to charity (subject to consultation).

**There are many ways to reduce the IHT payable on your death, through lifetime planning and action – please speak to us if IHT is a concern.**

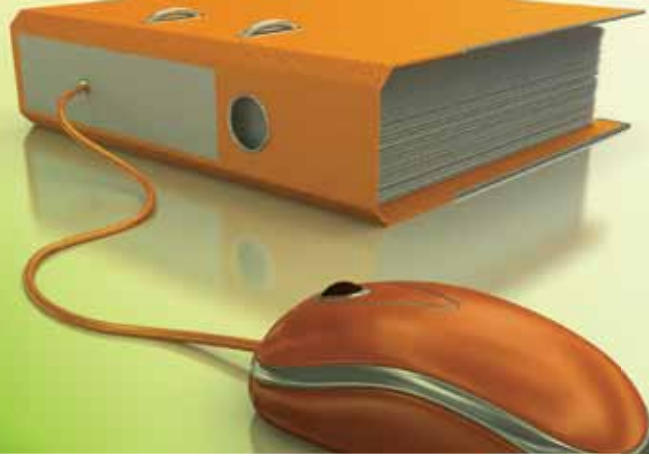
## Tax reminder – don't miss the Self Assessment deadline!

**31 January 2012 is the last day for filing your 2011 Tax Return online without incurring penalties.**

Following the introduction of HMRC's new penalty regime, there has been a significant increase in the value and frequency of fines for the late filing and late payment of income tax through Self Assessment. An initial penalty of £100 is payable the day after the initial filing deadline is missed (even if there is no tax payable). This is followed by a series of additional ongoing penalties for late filing and payment.

**We can help you to prepare your Tax Return – please contact us for further advice and assistance.**

**FILE  
TAX RETURN  
31 JAN 2012**



# Tax Round-Up

## Capital allowances loophole is closed

The Government has brought forward the closure of a loophole which allowed businesses to accelerate capital allowances claims for plant and machinery and obtain advantageous early tax relief.

With the capital allowances annual investment allowance (AIA) due to fall from £100,000 to £25,000 in April 2012, HMRC said it was aware of a scheme to 'side step' the anti-avoidance rules.

The capital allowances anti-avoidance legislation denies AIA and First Year Allowance (FYA), without exception, where there is a sale or hire-purchase of plant or machinery if either:

- (i) the buyer and seller of the plant or machinery are connected, or
- (ii) the transaction was put in place solely or mainly to get the benefit of capital allowances, or
- (iii) the plant or machinery was sold and then leased back to the seller and the seller continues to use the plant or machinery for the purposes of a qualifying activity.

Prior to 12 August 2011 there was an 'exception for manufacturers and suppliers': where the plant or machinery had been bought or hire-purchased from a manufacturer or supplier of such plant or machinery in the normal course of business, then the buyer was not precluded from claiming FYA or AIA. The plant or machinery must never have been used before the sale or the making of the hire purchase contract.

The capital allowances regime will undergo major reform from April 2012. The AIA, which offers tax relief at 100% on qualifying expenditure in the year of purchase, will be significantly reduced to

£25,000, while the rates of writing down allowance (WDA) are also set to fall.

The WDA rates for new and unrelieved expenditure on plant and machinery will be reduced from 20% to 18% per annum for expenditure allocated to the main rate pool, and from 10% to 8% per annum for expenditure allocated to the special rate pool.

## The move to online VAT filing

HMRC has launched a consultation on the next steps for moving VAT online.

It proposes that from 1 April 2012, it will be compulsory for VAT registered businesses with a turnover below £100,000 to file VAT returns online and make electronic payment of any VAT due. There are also plans to make online the default (though not compulsory) channel for all businesses for VAT registration, deregistration and changes to registered details.

Since 2010, larger businesses and all new VAT registrants have had to file VAT returns online and pay their VAT electronically. Others can still file paper returns and pay by cheque. Although HMRC claims that moving to online filing has so far been 'considerably faster' than predicted, with 'few practical problems', for some older businesses and some in rural locations where broadband is limited, compulsory online filing could be a burden.

The move is part of a wider general Government drive to move transactions from paper to online. There are plans to introduce a new online VAT registration service from October 2012, with the aim of making registering quicker and easier, and there are also consultations to move direct taxes online.

## Tax Tip

### Festive Gifts

Gifts are not normally tax-deductible. However, small gifts (excluding food and food vouchers, drink and tobacco) carrying some form of advertisement should be eligible for a tax deduction.

A good example might be diaries with the firm's name embossed on the cover.

## Reminders for your Winter Diary

### December 2011

30 Last day to file your 2011 Tax Return electronically if you wish to have a 2010/11 balancing payment of less than £2,000 collected through your 2012/13 PAYE code.

31 Last day for non-EC traders to reclaim recoverable UK VAT suffered in the year to 30 June 2011.

End of relevant year for taxable distance supplies to UK for VAT registration purposes.

End of relevant year for cross-border acquisitions of taxable goods in the UK for VAT registration purposes.

End of CT61 quarterly period.

Filing date for Corporation Tax Return Form CT600 for period ended 31 December 2010.

### January 2012

1 Due date for payment of Corporation Tax for period ended 31 March 2011.

14 Due date for income tax for the CT61 quarter to 31 December 2011.

19/20 Quarter 3 2011/12 PAYE remittance due.

31 First self assessment payment on account for 2011/12.

Capital gains tax payment for 2010/11.

Balancing payment – 2010/11 income tax/Class 4 NICs.

Last day to renew 2011/12 tax credits.

Deadline for amending 2010 Tax Return.

Last day to file the 2011 Tax Return online without incurring penalties.

First payment due date for 2011/12 Class 2 NICs.

### February 2012

1 £100 penalty if 2011 Tax Return not yet filed online. Additional penalties may apply for further delay. Interest starts to accrue on 2010/11 tax not yet paid.

2 Submission date of P46 (Car) for quarter to 5 January.

14 Last date (for practical purposes) to request NIC deferment for 2011/12.