

FIRST FINANCIAL

Tax Tips

Creating Wealth

Protecting Assets ...



Tax laws change every year and sometimes more often. This guide was revised shortly after the October 2007 Pre-Budget Report, when the Government announced a number of major changes to capital gains tax and inheritance tax, as well as several other measures. These Tax Tips are designed to act as quick prompts to help you judge which ideas might be relevant to you or your business.

As always with tax planning, you should take competent tailored advice before putting a Tax Tip into action.

Disclaimer

This publication is for general information only and is not intended to be advice to any specific person. You are recommended to seek competent professional advice before taking or refraining from taking any action on the basis of the contents of this publication. Please note: All references in this publication to marriage and spouses etc should be read as including registered same-sex civil partnerships and civil partners. The publication represents our understanding of law and HM Revenue & Customs practice as at November 2007.

The FSA does not regulate taxation advice and some aspects of buy to let arrangements.

Levels, bases of and reliefs from taxation may be subject to change.

The value of your investment can go down as well as up and you may not get back the full amount invested

Taxation Overview

Tax could be one of your biggest single costs. So it is not surprising that tax planning is one of the key aspects of formulating a financial plan. There is often a considerable amount that can be done to reduce the impact of taxation. The main types of tax are:

Tax on your earnings can have a major impact in the form of income tax and national insurance contributions as well as the corporation tax levied on a company's profits. Planning can be very effective encompassing such areas as pensions and employee benefits and the use of alternative methods of drawing profits from your company.

Tax on your investments can erode a high proportion of your income and gains. Tax should not be the main driver of investment strategy, but planning can make a considerable difference to our after-tax returns.

Tax on your estate can take up to 40% over and above the nil rate band. It was perhaps excessively harsh of a previous Chancellor of the Exchequer to describe inheritance tax as a levy on people who disliked their families even more than they disliked the Inland Revenue. Nevertheless, the scope for effective and totally legal tax planning is very considerable.

If you need access to accountants who specialise in tax planning, we would be pleased to make a recommendation.

1. Invest in assets that produce gains subject to capital gains tax (CGT)

You can make £9,600 tax-free gains in one tax year (for 2008/09), before you have to pay CGT. If you dispose of assets after 5 April 2008, there is a new flat rate of CGT of 18% above this annual exemption. You should review your investments to see if some of them should be in assets that come under the CGT regime – e.g. shares, unit trusts, and investment trusts. However, make sure that you take account of the extra risk that might be involved in CGT-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.

2. If you have capital gains tax losses, get advice on how to use them well before April 2009 to make the most of them. If you own shares in companies that have gone under, you can claim that those shares now have a negligible value. The amount you originally paid for the shares will be treated as a loss, which can then be set against your other gains to reduce your total capital gains tax liability.

3. Claim tax relief on the loss where you have guaranteed a loan made to a UK trading business, and you have had to pay up under that guarantee because the borrower defaulted.

The amount you paid counts as a capital loss in your hands that you can use to reduce any capital gains that you might have, so reducing your tax liability.

4. Subscribe for up to £200,000 of shares in a Venture Capital Trust (VCT) in 2008/09, and you could receive a 30p tax credit for each £1 you invest.

VCT shares you buy are also exempt from capital gains tax on their ultimate sale. But be warned - VCTs can be very risky investments and you must hold them for at least five years in order to retain your income tax credit.

5. Get instant tax relief for Enterprise Investment Scheme (EIS) investments.

When you subscribe for up to £500,000 in EIS shares, you will receive a 20% tax credit to be set off against your income tax bill. EIS shares can be very risky and you have to hold them for at least three years to keep the income tax credit. You can defer tax on your capital gains by reinvesting your profits in EIS shares; there is no limit on the amount of capital gains tax you can defer in this way.

6. If you were thinking of selling shares or other investments that are subject to capital gains tax (CGT), consider whether you should postpone the sale to after 5 April 2008 when the new flat rate of 18% CGT is due to be introduced. It will not be worthwhile for all your investments, especially if you have held them for a number of years, but it could bring down the rate of tax that applies.

7. Use your ISA flexibly and invest early in the tax year to get the full benefit.

If you have not already invested in a maxi ISA in the current tax year, you can open a mini cash ISA and use it as a day-to-day savings account. As long as you do not deposit more than a total of £3,600 in one tax year, all the interest earned will be tax free. Remember anyone aged 16 and over can open a cash ISA, so encourage your older children to save in this way as well.

8. Allowing your overseas bank to pass your details on to HMRC could save you foreign withholding tax, under the EU Savings Directive exchange of information rules. If you do not give permission for details of your account to be passed on, the bank must deduct 15% withholding tax, although you can offset this against the UK income tax due on that interest. In future years, the rates of withholding tax are due to rise. Do not forget to declare the offshore interest you receive on your UK tax return. HMRC can obtain this information directly from the bank if you do not declare it.

9. Plan your income for the year before you cash in your life assurance bonds.

The profit on your bond could push more of your total taxable income for the year into the higher rate tax band. To avoid this spike in your income, you could reduce your other sources of income by closing deposit accounts just before the beginning of the tax year, or by reducing the amount you draw from your company or pension fund.

The FSA does not regulate taxation advice and some aspects of buy to let arrangements.

Levels, bases of and reliefs from taxation may be subject to change.

The value of your investment can go down as well as up and you may not get back the full amount invested