Spring 2011

Talking Tax

Guiding you to lifelong prosperity

Introduction

Welcome to Talking Tax, the newsletter from the Hazlewoods tax team.

The most recent tax return deadline has passed and the end of the tax year is not far away, which makes it the perfect time to review your tax affairs. We hope this issue of Talking Tax will give you something to think about ahead of the new tax year.

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Top five pre year end tax planning ideas for individuals, businesses & companies

Spotlight on our VAT team!

For key tax dates visit www.hazlewoods.co.uk

Pension planning under the new Government

Following the Governments' Emergency post Election Budget in June 2010, consultation periods have now been completed in two important areas of pension planning.

Tax relief on Contributions

For the last two years, "anti-forestalling" has restricted the higher rate tax relief available for higher earners (those with income over £130,000 per annum) on contributions in excess of £20,000, unless an existing regular subscription was in place at 21 April 2009. Contributions over these levels have relief restricted to an effective rate of 20%.

From 6 April 2011, the concept of higher earners will end, to be replaced by a contribution limit of £50,000 for everyone, with **no relief at all** for excess contributions. Care needs to be taken with employer contributions as, where the pension input period ends in 2011/12 contributions are, in effect, already restricted to £50,000. With careful planning, it may be possible for contributions of up to £255,000 to be made, if the scheme's input period ends in 2010/11.

The ability to carry-forward unused relief is set to return. Up to three earlier years' unused contributions may be aggregated, but only where pension scheme membership already existed (i.e. not available for new schemes).

The Lifetime Allowance (maximum pension pot in plain English), currently £1,800,000, is to reduce to £1,500,000 from 6 April 2012, and seems unlikely to be increased in line with inflation on a regular basis. This means that, although higher contributions may be made, greater care needs to be taken to ensure that future growth does not result in an excessive fund value at a later date.

In summary, we welcome the new contribution limits, as they cater well for the contribution expectations of most family business owners and executives, but prevent the extremes of tax mitigation enjoyed by certain 'mega earners' in recent years.

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DRIVING LIFELONG PROSPERITY

Prior to 5 April this year, you should consider the following:

- Making contributions up to £20,000 to maximise relief, whether paid personally or by an employer.
- For higher earners, still consider larger contributions to gain some relief (as none will be available from 6 April 2011 for contributions above £50,000).
- Employers should consider whether their schemes may allow a final high contribution.
- If you are aged 55 or over, contributions are unlimited if all pension benefits commence in the same tax year. This concession disappears from 6 April 2011.
- If your income is between £100,000 and £113,000 this year, making a contribution may recover your personal allowance, so creating effective tax relief of 60% on the contribution paid.

Removal of Annuity Compulsion

On 9 December 2010 the Treasury announced a new retirement framework that sees the arrival of what they called 'Capped and Flexible drawdown', replacing the previous unsecured pension and alternatively secured pension, both more commonly known as income drawdown. The new rules apply from 6 April 2011.

Most importantly, drawdowns may continue beyond age 75 and, as a result, annuity purchase may be delayed indefinitely. Instead, the fund remaining after a spouse's and dependants' pensions have been paid may be passed to beneficiaries, subject to a special tax charge of 55%. If there are no beneficiaries, the fund may be donated to charity tax-free.

Whilst this rate seems very high, it is often far preferable to the loss of one's fund through annuity purchase and, if compared to the combination of income tax and inheritance tax on pension income "received but not spent" the effect is not dissimilar.

Capped Drawdown will operate in a similar way to current drawdown, other than a new maximum level (roughly 20% lower) and more frequent reviews (every three years instead of five).

Flexible Drawdown will allow unlimited income to be drawn, subject to a minimum income requirement of £20,000 per annum. This will include state pensions, final salary pensions and pension annuities and will apply to each individual i.e. no allowance for couples.

In summary, the changes represent genuine progress for retirement income planning. The high tax charge on death will prevent use of pensions to avoid inheritance tax, but the open-ended choice of whether to purchase an annuity is very welcome.

Annuity purchase will still be the best route for lots of people as drawdown, by its nature, is not without risk. For people with little or no other income, an annuity gives certainty, while drawdown will always remain prone to variations in interest rates, economic growth, life expectancy and taxation policy. In contrast, once an annuity has been purchased, it is generally fixed for life.

However, for more wealthy, adventurous or sophisticated individuals, drawdown offers an opportunity to draw income while still experiencing investment growth or, perhaps, increasing interest rates in the future. Whilst these advantages are uncertain, the ability to pass on the fund on death may be the main attraction for many people.

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Tax prize draw - the lucky winner is...

Simon Cook of Thomson & Bancks LLP Solicitors based in Gloucestershire and Worcestershire is the lucky winner of this year's tax prize draw. Simon will be heading to Dublin for a luxury weekend break.

The tax prize draw has been running for a number of years to incentivise clients to send us their tax return information early.

Martin Riley and Ashley Eastham of Cheltenham Town Football Club drew out the winning entry in front of the Hazlewoods stand at Whaddon Road.

Picture, from left to right: Beverley Roberts, Martin Riley, Nick Haines and Ashley Eastham.

Budget 2011 - follow it live with us

The Budget date for this year is Wednesday 23 March.

We will be running our popular live news feed during the speech on our website at www.hazlewoods.co.uk.

We will also be providing more detailed analysis again on our website.

This year's Budget should be an interesting one, as it will be the first full Budget under the Coalition Government's commitment to improve the way that tax policy is developed, legislated and communicated. So in theory there shouldn't be any shocks!

Out now - Payroll Facts Card! Keep up to date with the 2011 / 12 rates and allowances

Payroll Services

Geared to meet your needs Hazlewoods Payroll Services set you free to focus on your business. Headed by a senior partner, our Payroll team ensures that your company obeys the rules and your employees are paid the right amount, on time.

To speak to a member of the Payroll team call 01452 634800 or email payroll@hazlewoods.co.uk

Could childcare vouchers save you £1000s?

One of the most family-friendly benefits an employer can offer employees is childcare vouchers. Employees who take up the offer can enjoy tax and National Insurance Contributions (NIC) **savings of up to £1,460 a year**. Given the tax efficiency of childcare vouchers it is well worth seeing if you can benefit from them too (or from offering them if you are an employer).

The basics

- Childcare vouchers are a Government incentive operated through employers that allow employees to pay for childcare from their pre-tax salary.
- The childcare vouchers can be used for children aged up to 15.
- Childcare vouchers are usually offered as a 'salary sacrifice'. So an employee gives up some of their salary in return for the vouchers.
- Childcare vouchers are not just useful to pay for young children's nursery fees, they can also be used to pay for after school clubs and holiday clubs.
- Employers can either use a third party to administer the childcare voucher scheme or they can do it themselves. Whichever route is taken the employer remains responsible for the correct deduction of tax and payments of NIC. It does not have to be onerous.
- An employer's childcare voucher scheme must generally be offered to all employees.
- The first £55 a week of childcare vouchers are free from both tax and NIC.

The savings for the employee

See Chart 1

The employer will also save NIC (12.8% increasing to 13.8% from April 2011) on the cost of the vouchers.

Changes from 6 April 2011

The Government announced changes to the arrangements in their June 2010 Budget. The aim of the changes is to even out the amount of tax saving available for all employees regardless of the tax rate that individual employees pay. The changes only affect employees who join schemes on or after 6 April 2011.

The potential savings for employees joining schemes on or after 6 April 2011 are shown in Chart 2.

For those already in schemes by 6 April 2011 the savings will remain more or less the same as they are now. The only changes are due to the increase in employees' NIC rates, effective from 6 April 2011.

Chart 1 Potential savings for an employee in a scheme before 6 April 2011

Employee's marginal rate of tax	Maximum weekly vouchers	Maximum annual tax and NIC saving
Basic rate (20%)	£55	£890
Higher rate (40%)	£55	£1,170
Additional rate (50%)	£55	£1,460

Chart 2 Potential savings for an employee joining a scheme on or after 6 April 2011

Employee's marginal rate of tax	Maximum weekly vouchers	Maximum annual tax and NIC saving
Basic rate (20%)	£55	£920
Higher rate (40%)	£28	£610
Additional rate (50%)	£22	£590

Take care

In some limited circumstances childcare vouchers may not be appropriate. Therefore before joining a scheme, remember:

- Childcare vouchers do not count towards the National Minimum Wage (NMW), so any salary sacrifice cannot take pay below the NMW rates.
- Childcare vouchers could affect an employees' entitlement to tax credits.

Act now

If you are an employee and could benefit from childcare vouchers, ask your employer if they have a scheme. If they do not have a scheme maybe you could suggest they start one before 6 April 2011. If they need any assistance we will be happy to help.

If you are an employer you should consider setting up a scheme in advance of the changes on 6 April 2011, as both **you and your employees are likely to save £1000s**.

If you would like a copy of our factsheet on childcare vouchers speak to your usual Hazlewoods contact.

Top tips

1. Both parents can claim childcare vouchers
2. The vouchers can be used for school aged children.
3. There are additional benefits in joining a scheme before 6 April 2011.

Top five pre year end tax planning ideas

Top five pre year end tax planning ideas for individuals

1. If you are a couple and one spouse has little or no taxable income - transfer income producing assets

It is often the case that one spouse has significant income some of which is taxed at the higher rate (40%) or the additional rate (50%). While the other spouse has not fully used their basic rate band or even their personal allowance. If you have income-producing assets you should see if they can be held more tax efficiently. The transfer of property and investments between spouses generally does not raise concerns with HMRC. However, more care should be taken if it is shares in a private company.

2. If your income is between £100,000 and £112,950 - reduce it

If your income is between £100,000 and £112,950 you can achieve an effective tax saving of 60% if you reduce it to below £100,000. This could be done by making a gift aid or pension payment.

3. Use your Capital Gains Tax (CGT) annual exemption

Husbands and wives each have a CGT annual exemption of £10,100 for the current tax year. At the mainstream CGT rate of 28% this can be worth £5,656 per couple, so make sure you are using both exemptions as fully as possible.

4. Make use of your Inheritance Tax (IHT) exemptions and reliefs

The IHT nil rate band has been frozen at £325,000 until at least 2014/15. It is therefore more important than ever to use the exemptions and reliefs available to you. Most gifts you make during your lifetime will be exempt from IHT as long as you survive seven years from the date you make the gift. Other exempt gifts include regular gifts made out of excess income, and a gift of up to £5,000 to a child when they marry. If you would like a copy of our factsheet about IHT which includes a list of the basic exemptions speak to your usual Hazlewoods contact.

5. Maximise your ISA investments

The annual savings allowance for 2010/11 is £10,200 of which £5,100 can be in cash. Hazlewoods Financial Planning can help with this.

Top five pre year end tax planning ideas for businesses

1. Make sure you qualify for Entrepreneurs' Relief (ER) for CGT worth up to £900,000

The benefits of ER increased dramatically following the Emergency Budget last summer. You should make sure that well in advance of any potential sale of your business you qualify for the relief. If you would like a copy of our factsheet on ER please speak to your usual Hazlewoods contact.

2. Review your business structure

If you run your own business it may be worth reconsidering its structure. The main choices are:

- Sole trader;
- Partnership;
- Limited Liability Partnership (LLP);
- Limited company
- Partnership and limited company
- LLP and company

Although you probably considered the tax efficiency of the structure of your business at the time you started trading, it may be worth revisiting it, especially with rates of personal tax and NIC increasing whilst rates of corporation tax are reducing. Any decision about the structure of your business will be complex and there will be non tax issues to consider too. Therefore specialist advice should be sought.

3. Deferral of taxable profits

When transactions are being carried out at or around the year end it may be worth considering whether it is more tax efficient to defer or advance income, gains or revenue or capital expenditure (as long as it can be done legitimately).

4. Maximise your ability to get full Business Property Relief (BPR)

BPR can remove a person's business interests from charge to IHT. As with all reliefs there are conditions that apply, so make sure you qualify. If you would like a copy of our factsheet on BPR please speak to your usual Hazlewoods contact.

5. Make the most of the £100,000 Annual Investment Alllowance (AIA)

Businesses can currently get 100% tax relief on their first £100,000 of capital expenditure on most plant and machinery. This will be reduced to £25,000 from 6 April 2012 so make the most of it whilst you can.

Top five pre year end tax planning ideas for companies

1. Consider your company car policy

With the ever increasing tax charges on company cars and fuel benefit it may be worth transferring company cars from the company to individuals personally. Whilst this may cause an increased tax charge at the time of transfer (if it is transferred at undervalue), it may be sensible planning overall.

2. Check the way you withdraw funds from the company is tax efficient

Significant tax could be saved by revisiting the way in which business owners withdraw funds.

The basic choices are:

- salary/bonus;
- dividends;
- interest on directors' loan account balances; and
- rent

The most tax efficient solution is often a mixture of all four of these. To ensure tax is minimised the position should be reviewed annually. Any decision needs to consider all forms of tax, and also the interaction with pension planning.

3. If you have a company and it falls within IR35 and has deemed payments, change your year end to 5 April 2011

4. Check if you can benefit from the planned new 'associated company' rules

The Government is planning to introduce new associated company rules from 1 April 2011. The aim of this is to try and ensure that the associated company rules purely relate to whether companies are part of a wider economic unit rather than being potentially associated by 'accident of circumstance'.

If you think your company may benefit from the new rules, and as a result you might pay the small companies rate of corporation tax rather than the marginal rate, you should consider:

- bringing forward the year end date to take advantage of the new rules earlier (especially for husband and wife companies which are not inter-dependent).
- paying a bonus during this year to obtain a tax deduction at the marginal rate rather than the small companies' rate.
- reviewing whether any profit can be legitimately deferred until the new rules come in, if this reduces the overall tax charge.

5. Consider accruing bonuses

The company could accrue bonuses to directors and staff and then as long as they are paid within nine months of the end of the accounting period they will be tax deductible in that accounting period.

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Will you benefit from a simplified tax system?

The coalition Government say they want to simplify the tax system to help restore the UK's reputation for stability and competitiveness. Under this remit one of the Government's first measures was to launch the Office of Tax Simplification (OTS) which is to provide the Government with independent advice on simplifying the tax system.

Now you may think it is odd (although probably not surprising) that in an attempt to simplify things, the first thing to happen is to create a new Office at the Treasury, costing us all more money. However from its initial reports we are hopeful that the OTS really could be going to make the tax system easier, at least in a small number of areas.

Here's a summary of what has happened so far.

What has the OTS been asked to do?

Initially the OTS has been asked to carry out two reviews

1. a review of all tax reliefs, and
2. a review of small business taxation.

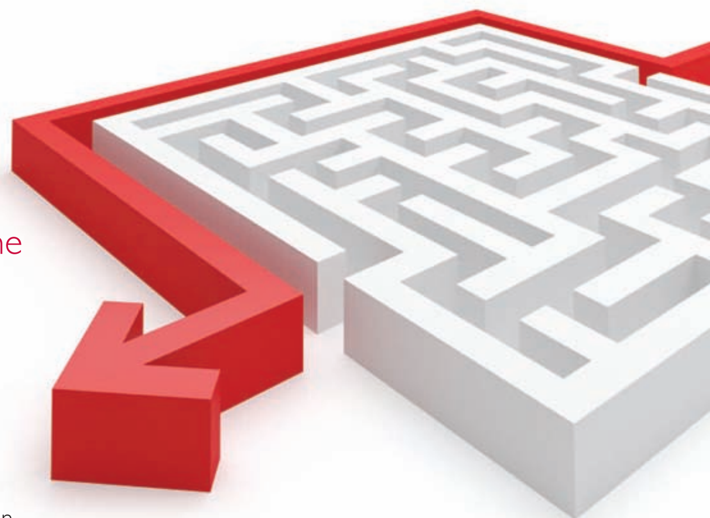
What has the OTS done so far?

8 November 2010

The OTS issued a complete list of the current tax reliefs and brief details of the approach that will be used for the Review. It is the first time a full list of tax reliefs had been published and it showed a whopping 1,042 available reliefs.

13 December 2010

The OTS published an interim report of the review of tax reliefs. The report acts as a test to gauge reaction to the OTS' methodology for the rest of the review. They have provisionally looked at 13 reliefs and provided a recommendation as to the future of each relief. The recommendations are either to (a) potentially retain, (b) simplify or (c) abolish. The OTS then listed the 74 reliefs they plan to review for their report, a further 75 reliefs which they will look at if they have time (!) and the remaining (893) reliefs they do not plan to pursue at the moment.



What is recommended for the 13 reliefs already reviewed?

(a) Potentially retain

- Capital gains tax relief on disposal of private residence (Principal Private Residence relief)
- Income tax relief for players in the 2011 UEFA Champions League Final
- Income tax relief for repair and maintenance of work equipment

(b) Potentially simplify

- VAT: supplies to charities/sales by charities Gift aid
- Lease premium relief
- Enhanced capital allowances for energy and water efficient technologies
- Research and development tax relief

(c) Potentially abolish (this list may make you smirk...)

- Exemption from benefit charge for late night taxis
- Vaccine research relief
- Millennium gift aid
- Income tax exemption for National Savings Bank Ordinary Account interest
- Luncheon vouchers - daily income tax relief for first 15p

So what next?

By 23 March 2011 (Budget Day), the OTS will issue:

- A full report of the review of all tax reliefs.
- An initial report identifying the areas of the tax system that cause the most day-to-day complexity and uncertainty for small businesses and recommended priority areas for simplification.

Conclusion

Whilst it is always easy to be sceptical about this kind of thing, the methodology being used to assess the small number of specific tax reliefs seems reasonable enough. At this stage we can only hope that the small business review will be well thought out.

Given that another of the Governments' intention is to fully consult before implementing changes, it may be some time before we see any simplification in practice. But given the initial reports we are hopeful that the changes may be positive.

Spotlight on our VAT team

The global shift towards indirect taxes means that more emphasis is being placed on maximising the tax take. In the UK there has also been a change by HMRC towards "self policing", ie placing the onus firmly upon businesses to document and demonstrate the robustness of procedures, to pay the right tax at the right time and to disclose errors promptly when they are discovered.

Our VAT team have in-depth experience, both working within major institutions and in practice, of managing and handling VAT affairs. We bring sensible, practical solutions to everyday issues as well as managing the VAT implications of complex structures, both in the UK and overseas. Set out below are just a few of the ways we can help you.

Recent Developments

- Increase in the UK VAT Rate: The standard rate of VAT rose to 20% on 4 January 2011.
- New penalty regime: The new regime, which applies to all taxes, places more emphasis on internal controls.

Our Services

- **Registration**. We can advise on your registration requirements, both in the UK and overseas. Once these are established, our registration service is quick and efficient. We currently look after clients' international compliance in the US, Canada, Switzerland, Singapore, Germany and Italy.
- **Domestic and international compliance**. We can handle your indirect tax reporting requirements in the UK and other countries where you have compliance requirements.
- **Indirect Tax Healthcheck**. We can carry out a review of your business, identifying potential risks and opportunities as well as highlighting efficiencies. A recent review revealed that a client was not capturing all VAT charged to them, **resulting in a £25,000 additional reclaim**.
- **Indirect Tax sign off**. Often combined with Healthchecks, we can implement and/or document your indirect tax reporting procedures to provide evidence to the Authorities of the robustness of your systems.
- **Partial Exemption/Cost Base Management**. For many business sectors, including financial services, healthcare and charities, VAT incurred on expenses is a real bottom line cost. We have huge experience in this area and can review your partial exemption calculation and your cost base with a view to minimising the impact of irrecoverable VAT. A recent review has achieved **savings in excess of £50,000**.
- **Cross Border Recharges**. A review of your cross border charges can ensure compliance, and also that reporting requirements (such as EC sales lists and Intrastat declarations) are met.
- **Liaising with Authorities**. We have extensive experience in liaising with Tax Authorities around the world and resolving issues.
- **Corporate Finance**. Indirect tax can (and in our experience has been) a deal breaker when it comes to Corporate Finance transactions. It is therefore essential to consider all aspects of a transaction, whether it is a disposal, acquisition or restructuring well in advance of completion.
- **Specialist transactional advice**. On top of the "day to day" issues facing businesses, there are occasional "one off" events or transactions which fall outside of the norm. We can help you deal with these.

Our People

Our VAT team comprises Adam Lloyd (Director) and Julian Millinchamp (Senior Manager).

Adam's time in industry has enabled him to develop a deep understanding of the day to day operations of a business as well as the pressures faced by people working therein, while his time in practice has enabled him to develop strong client and relationship management skills.

Having worked in both industry and practice, Adam aims to use his experience of bringing tailored, practical and commercially attractive solutions to our clients.

Julian's day to day work covers the full spectrum of VAT issues as they affect a varied portfolio of businesses - ranging from advising a small owner managed business on the merits or otherwise of the flat-rate scheme, through to analysing the VAT implications of multi-million pound property transactions. He has also represented clients in hearings before the VAT and Duties Tribunal.

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This newsletter has been prepared as a guide to topics of current financial and business interest.
We strongly recommend you take professional advice before making decisions on matters discussed here.
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