

# Veterinary Matters

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## New Year Tax Opportunities

### Key changes

With the festivities behind us, now is a good time to take stock of some of the tax changes taking place and review opportunities available to you:

- Annual Investment Allowance increased from £25,000 to £250,000 on 1 January 2013, for a period of two years
- Main rate of corporation tax to reduce to 21% from April 2014
- Pension annual allowance down in April 2014 from £50,000 to £40,000
- Pension lifetime limit down in April 2014 from £1.5m to £1.25m
- ISA limit to increase to £11,520 from April 2013
- Higher rate threshold, capital gains tax annual exemption and inheritance tax nil rate band restricted to 1% increase per year, for the next two years
- Personal allowance to increase to £9,440 from April 2013

## Particular points of interest for you and your practice

The Annual Investment Allowance (AIA) increased from £25,000 to £250,000 on 1 January 2013, for a period of two years.

The AIA provides 100% tax relief on expenditure on plant and machinery (excluding most cars).

All practices should, where possible, plan expenditure to ensure the maximum benefit is obtained from the AIA.

The AIA increased tenfold to £250,000 from 1 January 2013. On the basis the allowance had only just been reduced from £100,000 to £25,000 in April 2012, you have to question whether there was a typing error that missed a 0 off previously!

You need to watch out for how the pro-rating will work in practice as the pro-rating of the allowance can be tricky. The allowance available in 2013 will vary depending on your year end. An example is set out below.

For a 30 September 2013 year end, we assume the AIA would work as follows:

Period from 1 October 2012  
to 31 December 2012: 3/12  
× £25,000 = £6,250

Period from 1 January 2013  
to 30 September 2013: 9/12  
× £250,000 = £187,500

**Total AIA for 30 September  
2013 year end** £191,750

Note that in the above example the expenditure must be incurred after 31 December 2012 in order to benefit from £187,500 of allowances.

The difference is starker where we look at, say, a 31 March 2013 year end.

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Period from 1 April 2012  
to 31 December 2012: 9/12  
× £25,000 = £18,750

Period from 1 January 2013  
to 31 March 2013: 3/12  
× £250,000 = £62,500

**Total AIA for  
31 March 2013 year end** £81,250

In this example the expenditure must be incurred after 1 January 2013 in order to benefit from £62,500 of allowances.

It may be possible to change the accounting year end of a business in order to accelerate the increased AIA available although generally for most practices this will not be needed if the timing of expenditure is planned carefully.

As the increased AIA is only currently expected to be available for 2 years from January 2013, if your practice is looking to undertake significant capital expenditure in the near future, it may be worth planning the expenditure to take place whilst the allowance is favourable.

### Corporation tax to reduce to 21% from April 2014

For a standalone company with taxable profits up to £300,000 per annum, the rate of corporation tax is set to continue at 20%.

For those standalone companies with taxable profits above £1.5m, the main rate of corporation tax is still set to reduce from 24% to 23% from April 2013. The Chancellor announced further good news in that this is now planned to reduce further to 21% from April 2014.

If a company's profits sit in the "marginal" band (between £300,000 and £1.5m) the effective rate of tax on profits above £300,000 is currently 25%, reducing to 23.75% from 1 April 2013 and reducing further to 21.25% from 1 April 2014.

The continued reduction in corporation tax rates is certainly a welcome one and is in contrast to what many believe are still relatively high levels of income tax. There may be significant tax savings arising from incorporation or having a company in the practice structure for those businesses that are currently structured differently.

### Pension allowance down in April 2014 from £50,000 to £40,000

Every individual is currently entitled to an annual allowance for pension contributions of £50,000 per tax year, whether made personally and/or by a company. An individual's annual allowance is increased by the amount of any

unused allowance in the previous three tax years. Therefore in theory the maximum contribution is up to £200,000 - this may be unlikely in practice, but hopefully illustrates the point.

The annual allowance is set up reduce to £40,000 from April 2014.

If you are considering making significant pension contributions in the next year or so, take advice so that you make the contributions in the most tax efficient way.

### Pension lifetime limit down in April 2014 from £1.5m to £1.25m

The maximum pension contributions that can be made over an individual's lifetime into their pension fund, whilst avoiding potential tax charges upon retirement is due to reduce from £1.5m to £1.25m from April 2014.

### ISA limit to increase to £11,520 from April 2013

The tax free ISA limit is set to increase marginally from £11,280 to £11,520 per tax year from April 2013. Of this £5,760 per tax year (up from £5,640) will be able to be saved in a Cash ISA.

Marginal increases they may be, but at least they are increases!



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