



**INDEPENDENT**  
**Financial Management**



A Guide to the  
**END OF  
TAX YEAR**  
2010/2011

Essential planning to beat  
the 5 April 2011 deadline

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# A Guide to the END OF TAX YEAR 2010/2011

## Essential planning to beat the 5 April 2011 deadline

Welcome to 'A Guide to End of Tax Year Planning'. Despite the current economic uncertainty as to what the future holds, pressure will continue for increased rates of taxation. This will be further fuelled by the disparity in rates of taxation, particularly for income and capital gains. We can't over-emphasise the importance of tax planning at an early stage.

Ideally you should commence your tax planning before the year even starts but after that, the earlier the better. The current 2010/11 tax year ends on 5 April and if you haven't done so already, now is the time to start assessing how you could trim a potential tax bill.

Wherever the terms 'spouse', 'spouses' or 'married couple' are used, these also apply to same sex couples who have entered into a

civil partnership under the Civil Partnership Act as well as to a husband-and-wife married couple.

### INCOME SPLITTING BETWEEN SPOUSES

Married couples in 2010/11 could potentially make tax savings by reducing or eliminating higher rate tax liabilities, achieved by reviewing the split of income between spouses.

It may be possible to save significant amounts of tax where assets on which investment income arise are transferred from a higher tax rate paying spouse to a lower tax rate paying spouse or to one with no income.

For a redistribution of income to be effective, there must be an unconditional and outright transfer of the underlying asset that gives rise

to the income. This means that tax savings may not immediately arise following an asset transfer between spouses until new income arises.

### Examples of tax savings:

Moving £43,000 of investment income from a 40 per cent tax-paying spouse to one with no income could generate a saving of up to almost £10,000 in 2010/11.

A gross dividend of £50,000 arising to an additional tax rate paying spouse means an additional tax bill (after taking the 10 per cent tax credit into account) of £16,250 compared to only £11,250 for a 40 per cent tax rate paying spouse, providing £5,000 of tax savings.

Moving £10,000 of investment income from a spouse whose income

### JOINTLY OWNING ASSETS

Income arising from assets owned jointly but in unequal shares is automatically taxed in equal shares unless a declaration on Form 17 is made to HM Revenue & Customs (HMRC) stating that the asset is owned in unequal shares. The election must be made before the income arises. This could be particularly relevant for a property investment business producing rental income, so consider such a declaration when a new jointly owned asset is acquired.

The exception to this rule is dividend income from jointly owned shares in 'close' companies, which is split according to the actual ownership of the shares. Close companies are broadly those owned by the directors or five or fewer people.

Income tax savings may also be made if you are self-employed. For example, your spouse could be taken into partnership or employed by the business. Alternatively, a spouse could be employed by the family company. However, in each case, the level of remuneration must be justifiable and payment of the wages must actually be made to the spouse.

### USING A CHILD'S ALLOWANCE

Children have their own allowances and tax bands. Therefore it may be possible for tax savings to be achieved by the transfer of income-producing assets to a child. Generally this is ineffective if the source of the asset is a parent and the child is under 18. In this case the income remains taxable on the parent unless the income arising amounts to no more than £100 gross per annum.

### THE 65 AND OVERS

Taxpayers aged 65 and over are able to claim higher personal allowances. The benefit of these allowances is eroded where income exceeds £22,900. In such circumstances a move to capital growth or tax-free investments may preserve the higher personal allowances.

is expected to be between £100,000 and £112,950 to a non tax-paying spouse saves £6,000 due to the recovery of personal allowance as well as the higher rate tax saving.

These high levels of tax saving are unlikely to be possible for many but savings can still be made by much smaller transfers of income. Moving just £1,000 of savings income from a 40 per cent higher rate tax-paying spouse to one with income below the personal allowance (£6,475) may save £400 this tax year.

## CAPITAL GAINS TAX (CGT)

Each individual has an annual exemption for CGT purposes. This is £10,100 for 2010/11. You should review your chargeable assets and consider selling before 6 April 2011 to utilise the exemption.

Bed and breakfasting (sale and repurchase overnight) of the same class of shares is no longer tax effective. However, sale by one spouse and repurchase by the other, or sale outside an Individual Saving Account (ISA) allowance and repurchase inside, may achieve the same effect. This can be done either to utilise the annual exemption or to establish a capital loss to set against gains.

Children may use their own annual exemption and take advantage of this by investing for capital growth. So with some careful planning this could lead to a £10,100 of gain per family member being realised every year tax-free.

### A split tax year

This year is unique in that there is a split tax year position in relation to CGT.

### Before 23 June 2010

Certain qualifying business gains were eligible for an effective 10 per cent tax rate where Entrepreneurs' Relief (ER) was available.

Other gains were charged at a flat rate of 18 per cent.

The ER lifetime limit available covers the first £2m of eligible gains.

### From 23 June 2010

Certain qualifying business gains are charged at 10 per cent where ER is available.

CGT of 18 per cent or 28 per cent will apply to any other chargeable gains once the annual exemption has been used.

Both the annual exemption and capital losses can be allocated to minimise an individual's CGT liability.

The 18 per cent rate will only be available for gains when an individual is deemed to have basic rate band available after taking income and business gains into consideration.

### Other considerations

If you have two homes you may be able to make elections to maximise the 'main residence' exemption.

It may be possible to establish capital losses for use by making a claim where assets no longer have any value – a 'negligible value' claim.

## FAMILY COMPANIES

A director/shareholder of a family company can extract profits from the company in a number of ways. The two most common are by way of bonus or dividend. For every £1,500 retained by a 40 per cent higher rate tax-paying individual, the cost to the company is £2,000 if a dividend is paid and £2,266 if a bonus is paid.

This assumes the company is liable to corporation tax on its profits at the small companies' rate of 21 per cent. There are other factors that may affect a decision to pay a dividend, including ensuring there are sufficient distributable profits. However, paying a dividend can often result in significant tax savings.

## GIVING TO CHARITY

To encourage charitable giving, the government has created a number of ways of securing tax relief on charitable donations. Gift Aid is the most common method and applies to cash charitable donations large or small, whether regular or one-off. The charity currently claims basic rate tax of 20 per cent back from HMRC plus a further 2 per cent supplement.

For the individual donor who is a higher rate tax payer, a cash gift of £78, (£100 for the charity due to 22 per cent rebate) only costs £58.50, due to the additional 20 per cent tax relief of £19.50. Always remember to keep a record of any gifts you make.

It may also be possible to make gifts of quoted shares and securities or land and buildings to charities and claim income tax relief on the value of the gift. This may be tax efficient for larger charitable donations.

## INDIVIDUAL SAVINGS ACCOUNTS (ISAS)

ISAs are a tax-efficient form of investment and income and capital gains are tax exempt. Maximum annual limits apply so to take advantage of the limits available for 2010/11; the investment(s) must be made by 5 April 2011. The rules allow a maximum investment in one Cash ISA of £5,100 or a Stocks and Shares ISA of £10,200. However, if you want to invest in both, then the investment should be capped so that overall you do not exceed the £10,200 limit. 16- and 17-year-olds are able to open a Cash ISA only.

## PENSIONS

There are many opportunities for pension planning but the rules can be complex in certain circumstances. Individuals can obtain tax relief on contributions up to £3,600 (gross) per year with no link to earnings. This makes it possible for non-earning spouses and children to make contributions to pension schemes.

Tax relief for further contributions is available on up to 100 per cent of earnings as long as this does not exceed the annual allowance (currently £255,000). Earnings include pay, benefits and trading profits and are generally referred to as 'net relevant earnings'.

The rules include a single lifetime limit (£1.8m for 2010/11) on the amount of pension saving that can benefit from tax relief. This lifetime limit is measured when pension benefits are taken. In last years Emergency Budget, the coalition government announced the reduction of the annual allowance to £50,000 with effect from 6 April 2011.

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