RICKARD KEEN LLP
CHARTERED ACCOUNTANTS

End of year tax tips

Time is ticking away to the end of the tax year on 5 April 2009, so it's worth thinking about whether you have made use of all the tax reliefs and allowances available to keep your tax bill to a minimum.

We hope you will find this quick guide to some of the more popular tax saving opportunities useful but professional advice, tailored to your individual circumstances, is essential to ensure maximum tax-efficiency. To find out more, please contact us.

Protecting your personal wealth

Top up your pension pot

If you have cash to spare, putting it into your personal pension is a wise move, particularly as life expectancies continue to increase. With many people looking forward to a retirement of around 20 years or more, planning ahead is crucial, as a state pension will simply not be enough to meet all your future financial needs.

You can pay up to £235,000 into your pension fund in 2008-09, free of tax, so if you are a higher rate taxpayer, each £1,000 payment into the fund will cut your tax bill by £400.

You can also put up to £3,600 into pensions for children, grandchildren and non-working spouse or civil partner, with full tax relief.

Reducing your inheritance tax bill

Inheritance tax is currently payable at 40% on assets exceeding £312,000, so if you own your own home and have life insurance policies, pensions and savings, your estate could be liable.

There are a number of tax-efficient ways to reduce your liability. Particularly significant are "lifetime gifts" (gifts made in your lifetime), which are tax-free or potentially tax-free.

These include small gifts of up to £250 to any number of people in any one tax year, certain gifts to a bride or bridegroom on their marriage – each parent can give £5,000, for example – and any gifts given to an individual more than seven years before the donor's death.

Up to £3,000 in other gifts in any one tax year are also exempt. If this sum is not used up in one tax year, it can be carried forward to the next, although no further. You can also make regular gifts out of your annual surplus income which are then exempted from inheritance tax.

Gifts to charities, whether made during lifetime or on death, and to political parties are also inheritance tax free.

An - ISA way to save

Make the most of your own annual individual savings account (ISA) tax-free allowance, and any ISAs belonging to other members of your family.

The maximum annual deposit in an ISA in 2008-09 is £7,200 overall, of which no more than £3,600 can be in cash.

Nothing ventured, nothing gained

If you are considering the sale of a business, a second home, shares or other property, such as antiques or jewellery, which has gained in value, before the end of the tax year, you may be liable to capital gains tax.

Transferring assets between spouses can make sure that you both take full advantage of your capital gains tax allowance of £9,600 in the 2008-09 financial year.

Protecting your business wealth

A profitable approach

It's worth seeking advice on the best way to extract profits from your business, whether through a salary and bonuses or as dividends.

There are pros and cons to both, which need to be carefully considered, although dividends are paid free of national insurance contributions, which can produce considerable savings. The last date to pay a 2008-09 dividend is 5 April 2009.

Pension contributions can also be a tax-efficient way to take profit from your company.

A capital idea

If you buy plant or machinery (other than cars) for your business, you can claim capital allowances.

You can deduct the first £50,000 of such expenditure from your taxable profits each year, with anything not qualifying for the 100% allowance written off at 20% each year on the reducing balance on an ongoing basis. Some items – known as integral features – standard fittings – attract a 10% writing down allowance.

Buying something a few days before the end of your accounting year means your allowances will usually be available a year earlier than if the purchase was made just after the year end.

Keep the cash flowing

Businesses can take advantage of a recent special measure, introduced in the Pre-Budget Report on 24 November, to help the cash flow position of those that have recently become loss-making.

They will be able to carry back losses against the profits of the previous three years, up to a limit of £50,000 of losses. The measure will apply for a year from 24 November 2008 to both companies and unincorporated businesses.

Research pays off

Businesses that carry out research and development as part of their work may be eligible for generous research and development tax credits.

Defined as a genuine advance in science or technology – although not necessarily a huge one – research and development tax credits allow businesses employing less than 500 people to deduct 175 per cent of their qualifying expenditure when calculating taxable profits.

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