YEAR END TAX PLANNER 2009/2010

Saffery Champness

CHARTERED ACCOUNTANTS

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Contents

Introduction

It has been a tumultuous year and tax matters have never been far from the headlines. From the new top rate of 50% income tax to an ongoing debate over the UK's competitiveness on business taxes, tax has been a key political battleground and national talking point in the past 12 months.

As the end of the current tax year approaches, now is a good time to review your financial, business and tax arrangements, to identify any opportunities to minimise taxes and maximise wealth.

The fiscal landscape is constantly changing and year-end tax planning is always affected by some level of uncertainty. What we do know, however, is that in light of the economic recession experienced in the last 18 months, the fiscal pendulum is swinging towards higher personal taxes. 2010 will also be a General Election year in the UK but, whatever the outcome of that Election, we may well be faced with a higher-tax environment for some time to come.

The final months of the current tax year, therefore, should be viewed as an important opportunity for all taxpayers to review their position to ensure that they take advantage of all possible reliefs and exemptions. For those with substantial incomes, the new tax year will of course herald the introduction of a 50% tax rate, and further restrictions on the value of allowances and reliefs, so there may be valuable opportunities for taxpayers to arrange their affairs now to benefit from the current lower levels of income taxes and the current, more generous levels of reliefs.

Please note: This publication is intended to provide general information and guidance only and is not intended to provide advice to any specific person.

You are recommended to seek competent professional advice before taking or refraining from taking any action based on the contents of this publication. Tax law is subject to change.

The publication represents our understanding of the law and HM Revenue & Customs practice as at January 2010. The FSA does not regulate tax advice.

INCOME TAX SAVINGS FOR COUPLES

Savings income

In certain circumstances, couples can save tax by switching income from one spouse or partner to the other. You should aim to use both individuals' personal allowances (£6,475 in 2009/10) and minimise any higher rate tax.

You could transfer investment income – at least for future years – by switching ownership of the asset that produces it, although there might be capital gains tax (CGT) to pay if you are not married or in a civil partnership.

You could simply transfer savings into your joint names so that half the income is taxed on each partner.

In business

If you are in business, you could pay a non-earning partner a salary, on which you will then get tax relief. You will not need PAYE records if the salary is below the national insurance contribution (NIC) limit of £412 a month in 2009/10. However, if the salary is between £412 and £476 a PAYE record will be required. Your partner will avoid paying any NICs but should still qualify for state benefits, such as a state pension.

As well as salary, you can pay an employer's contribution to your partner's personal pension plan. There is no tax or NIC on the payment itself, and it should be an allowable business expense. You should note, however, that the total value of your partner's salary, benefits and pension contributions must be justifiable in relation to the work performed.

You could share the profits of your business by operating as a partnership. You both need to be genuinely involved as business partners, though not necessarily equally.

Dividends

If you operate your business as a company in which you both have shares, you should consider paying a dividend before 6 April 2010, if the gross income (including the tax credit) will fall into the basic rate band (£43,875 including personal allowance).

You could even give shares to your spouse or civil partner shortly before paying the dividend, provided you make a genuine transfer of ownership with no strings attached. You should leave as much time as possible between the gift and paying the dividend.

Planning point

Couples can save income tax (and potentially CGT) by switching income-producing investments from the higher rate taxpayer to a basic rate or non-taxpayer.

CAPITAL GAINS TAX PLANNING

Reliefs and exemptions

Most individuals have an annual CGT exemption, which in 2009/10 makes the first £10,100 of gains free of tax. Gains above the annual exemption are taxed at 18% unless the disposal (or part of the disposal) qualifies for Entrepreneurs' Relief.

Entrepreneurs' Relief is available in respect of gains made on the disposal of all or part of a business, gains made on disposals of assets following the cessation of a business and on the sale of shares by certain individuals who were involved in running the business. Entrepreneurs' Relief reduces the effective rate of CGT to 10%. However, there is a lifetime limit of £1,000,000 of gains and once this has been used all gains will be taxed at 18%.

You should normally aim to use your annual CGT exemption by making disposals before 6 April. If you have already made gains of more than £10,100 in this tax year, you might be able to dispose of assets to create a tax loss to set against the excess gains.

If your disposals so far this tax year have resulted in a net loss, the decision whether to dispose of assets to realise gains before 6 April 2010 depends on the amounts involved. You can sometimes save more CGT by carrying tax losses forward to set against gains in a future tax year.

Transfer between spouses/civil partners

You might be able to save CGT by first transferring assets between married couples or civil partners, if one partner has an unused annual exemption or capital losses. You should generally leave as much time as possible between the transfer of the assets and their sale.

A transfer of assets between married couples or civil partners is treated as being made at 'no gain no loss' and therefore a charge to CGT will not arise. Transferring assets to anyone other than your spouse or civil partner may give rise to a CGT liability and therefore it may be worth taking advantage of current market conditions and reduced CGT liabilities by gifting assets at relatively low values.

On marriage/partnership breakdown it should be borne in mind that the 'no gain no loss' rule will only apply in the tax year of separation. It may therefore be worth considering transferring assets now in order to avoid a CGT liability.

Timing

CGT is payable on 31 January after the end of the tax year in which you made the disposal. You might want to delay a major sale until after 5 April 2010 to give yourself an extra 12 months before you have to pay the tax.

Difficult economic conditions in the past year may have led to drastic declines in asset values - meaning that certain shares or assets you own have become virtually worthless.
If so, there is a silver lining, namely that you can claim the loss against your capital gains without actually disposing of the asset. You can backdate the loss relief to either of the two tax years before the one in which you make the claim, provided that in the earlier year you owned the asset and it was already of negligible value. Claims made by 5 April 2010 can be backdated to the tax year 2007/08.

Principal private residence elections

If you solely, or jointly with your spouse or civil partner, own more than one property you should make a principal private residence election within two years of acquiring the second property. This enables the election to be varied at a future date and may save you CGT. We are happy to assist you with such elections. Couples should consider owning property in respect of which there is no principal private residence election jointly – this may give them the benefit of two annual exemptions when the property is sold.

Furnished holiday lettings

Furnished holiday lettings (FHL) are a particular form of business activity that have benefited from favourable tax treatment. For CGT purposes, the disposal of an FHL property is treated as the disposal of a business asset, which can be "rolled over" against the acquisition of replacement assets, or which can benefit from Entrepreneurs' Relief, reducing the effective rate of CGT to 10%.

In the Chancellor's most recent Budget, he announced plans to abolish this favourable tax treatment. From 6 April 2010, the current treatment of FHL will be repealed and the beneficial CGT treatment of FHL properties will cease to apply. Until 5 April 2010, however, the current FHL regime will be extended to apply to FHL properties situated in any European Economic Area country, not just the UK.

If you are considering the sale or transfer of an FHL property, you may wish to ensure that the transaction is completed prior to 6 April 2010 so that any capital gain is dealt with under the existing, favourable regime. If you are considering the sale, or indeed have already sold a property abroad which was let out, you may wish to discuss with your usual Saffery Champness contact whether the FHL regime may apply to this property, such that any CGT arising may be reduced or deferred.

Planning point

In any tax year, use your annual CGT exemption by making disposals. The annual exemption cannot be carried forward or transferred.

Non-domiciled individuals may not be able to use the annual exemption if taxed on the remittance basis.

Invest in assets that give rise to a CGT liability which is taxed at 18% rather than an income tax liability which will be taxed at rates of up to 40% (50% after 5 April 2010).

Sales or transfers of furnished holiday let properties prior to 6 April 2010 will benefit from the current favourable FHL regime.

BUSINESS OWNERS

General

Business tax planning is usually best done before the end of the accounting period, but even if your business year end is not 31 March or 5 April, this is a good time to review your tax position.

If your business has made a loss in the accounting period ending in the 2009/10 tax year, the loss can be offset against your other income of that year, and of the previous year (2008/09). Under measures announced by the Government to help businesses through the recession, up to £50,000 of losses can additionally be carried back and set against profits from your business in the two prior years (2006/7 and 2007/8). You may be able to maximise expenditure this year, or in some cases even change your accounting period end, to take advantage of this temporary extended loss relief.

You may also be able to make a loss relief claim outside of your tax return if the accounting period has ended and the tax loss is quantifiable. Please get in touch with your usual Saffery Champness contact if you would like this to be considered further.

Some capital expenditure can qualify for tax relief. Businesses now get immediate tax relief on the first £50,000 a year spent on most types of equipment and many fixtures in buildings. In another move designed to boost spending in the recession, for a one-year period ending on 5 April 2010 (31 March 2010 for companies), capital expenditure on plant and equipment in excess of this initial £50,000 limit will qualify for a first-year allowance of 40%. It might be worth bringing forward expenditure to benefit from this temporary first-year allowance.

Consider when to dispose of cars and other equipment. Whether a disposal is before or after your accounting year end will affect your tax payments.

You might find that a change of accounting date will allow you to use up any "overlap relief" arising from the double taxation of profits in your opening years, before inflation further erodes its value. It may be a way of accelerating profits into the current tax year prior to the introduction of a 50% income tax rate on 6 April 2010 (see below).

If your trading has been affected by the recession and your results for the accounting period ending in 2009/10 will be worse than the preceding year, help is at hand. It may be worth considering claiming a reduction to the 2009/10 payments on account which are due and payable on 31 January and 31 July 2010. These are interim payments towards your tax liability for the year and therefore if your taxable profit has reduced, these payments can also be reduced. Please seek advice in calculating this as, if the tax payments are over-reduced, interest will be charged on the amount underpaid.

HMRC have also changed their existing 'Time to Pay' facility to help small to medium sized businesses manage their tax liabilities if they have been unable to pay their tax in full. They will consider and negotiate a deferred payment plan to clear the liability over an affordable timetable through the Business Payment Support Service.

If your business is affected by the personal service company rules (IR35), it is important to calculate how much salary to draw before 6 April 2010 to avoid being taxed on a 'deemed payment'.

Furnished holiday lettings

Furnished holiday lettings (FHL) are a particular form of business that have benefited from favourable tax treatment, such as the ability to offset FHL losses against other income and the ability to claim capital allowances on equipment used in the FHL business.

From 6 April 2010, the current rules on FHL will be repealed and profits from FHL will be treated in the same way as other forms of residential property letting. It will no longer be possible to offset FHL losses against other income, nor to claim capital allowances on items of FHL plant and equipment.

Up to 5 April 2010, however, the existing FHL rules will be extended to cover FHL properties in any European Economic Area country, not just those in the UK. If you own a property abroad, which you let out as holiday accommodation, you may wish to discuss with your usual Saffery Champness contact whether you can benefit from this extension to the FHL provisions both in the current 2009/10 tax year, and in previous tax years.

National Insurance

Savings could also be possible by reviewing your National Insurance contributions. If you have earnings of less than £5,075 in the current period you can apply for a refund of Class 2 National Insurance (currently £2.40 per week). You must continue to pay until the end of the fiscal year but may then be able to apply for a refund. You may also be able to complete a form so that if your earnings are going to continue to be low, Class 2 National Insurance is not paid. Consideration should be given to the fact that if no National Insurance is paid for a period this may affect your qualification for state pension and other benefits.

Finally, if you are employed and self-employed, or if you have more than one employment, you may be paying excess NICs. You can defer the excess national insurance, but you should normally apply by 5 April 2010 for deferment in 2010/11.

Planning point

The timing of expenditure, invoicing and asset disposals before or after the end of your accounting period can affect the amount of tax you pay.

Consider amending your payments on account to HMRC based on your actual profit for the current period.

Consider whether you own property abroad which is let out that may fall within the extended FHL regime up to 5 April 2010, allowing offset of losses etc.

DIRECTORS AND EMPLOYEES

General

Even though tax is deducted from your salary or bonus before you receive it, there are still possibilities for saving tax at the year end. As a shareholding director, you might be able to choose between a bonus and a dividend – and whether you receive the payment before or after the end of the tax year – depending on your marginal tax rate, and your company's marginal tax rate, in each year.

The introduction of a 50% income tax rate (42.5% on dividends) from 6 April 2010, for those with incomes of £150,000 or more, will mean that planning the timing of income receipts will be of even greater importance this year. This topic is covered in greater detail in a later section.

If you are going to work abroad for over a year, you should try to leave the UK before 6 April 2010. You need to be away for a whole tax year for the income from working abroad to be free of UK tax.

If you hold share options, you should take into account the tax as well as the investment issues in deciding when to exercise them.

It is worth repeating from the previous section that if your business is affected by the personal service company rules (IR35), it is important to calculate how much salary to draw before 6 April 2010 to avoid being taxed on a 'deemed payment'.

Company Cars

This is also a good time to review whether a company car is worthwhile and, if so, whether your employer should provide fuel for private travel. Switching to a company car with very low CO_2 emissions will save you and the company tax and reduce other costs.

If you make a capital contribution of up to £5,000 towards the cost of the car, this will reduce the tax cost by a maximum of £700 for 2009/10. The £5,000 could be funded by a tax-free cheap loan from your employer if you do not already receive this benefit.

You may be better off owning your car personally and claiming an allowance for your business mileage (see below). Some employers run assisted purchase schemes, taking advantage of the £5,000 tax-free cheap loan provisions, to facilitate this.

Fuel

If you are provided with free fuel for your company car, the tax charge is based on the car's CO_2 emissions. In 2009/10 the charge is calculated as 15-35% of £16,900, making the tax cost to a higher rate taxpayer driving a car attracting the maximum percentage £2,366 a year. If the tax is more than you would spend on private fuel, it is not worth receiving this benefit. The scale charge does not apply if you are contractually obliged to reimburse the full cost of the fuel used for private journeys (and you do so).

Private cars used for work

If you use your own car on your employer's business, you can be paid a tax-free mileage allowance provided that it does not exceed the following limits:

Up to 10,000 business miles	40p per mile
Each additional mile over 10,000 miles	25p per mile

In an effort to cut carbon emissions by encouraging business drivers to car pool, the mileage allowance is increased by 5p per mile for each work colleague passenger making the same trip.

You should maintain details of the business journeys. If you use a bicycle or motorcycle for business journeys, you can also receive a tax-free allowance of 20p per mile (bicycles) and 24p per mile (motorcycles). If you are reimbursed at less than the above rates (excluding the passenger rate), you can claim a tax deduction of the difference between the amount reimbursed and the authorised rate.

Vans

If a company van is provided and there is any element of private use then the basic benefit on which tax is charged is £3,000 a year, with an extra charge of £500 if 'free' fuel for private use is supplied.

If there is no private use of the van then there is no benefit and therefore no tax charge arises.

Claims for expenses

If you are a director or an employee earning above £8,500 per annum and are reimbursed expenses by your employer, remember to claim a tax deduction for all your expenses incurred wholly, exclusively and necessarily on your employer's business (unless a dispensation is already in place). This claim can be made in your tax return.

Other benefits in kind

You should consider taking advantage of any benefits offered by your employer. In most cases the tax charge will be less than the cost of paying for the item or service out of already taxed income. Some benefits have no tax or National Insurance cost including work-related training, health screening, loans up to £5,000 and small weekly contributions by your employer towards the cost of working from home.

Places in employer nurseries are fully exempt from tax and National Insurance. Alternatively, the employer can pay (directly to the provider or by giving you vouchers) up to £55 per week towards your registered or approved childcare costs free of income tax and National Insurance.

National Insurance

Again, it is important to note that if you are employed and self-employed or have more than one employment, you may be paying excess NICs. You can defer the national insurance you pay, but you should normally apply by 5 April 2010 for deferment in 2010/11.

Planning point

If you are a director-shareholder, you may find taking dividends is preferable to taking more salary. In addition, the timing of your salary or a bonus can affect your tax and national insurance liability. See also the section below if your annual income is £150,000 or more.

PLANNING FOR THE 50% ADDITIONAL RATE

The new rules

One of the biggest news stories of the year has been the controversial decision to introduce a new top rate of tax. From 6 April 2010, taxable income of £150,000 or more will be subject to an "additional rate" of 50%. Until then, the highest rate of income tax will be 40%. One key aspect of planning for the 50% rate will be to ensure, where possible, that income is taxable in the current year at only 40% and that tax reliefs and deductions are deferred until next year when they will get relief at 50%.

Business owners, for example, could pay bonuses and/or dividends in the current tax year. If you have a bank deposit or investment account that is scheduled to pay interest later in 2010, you could consider closing that account before 6 April 2010 to crystallise the interest income in the current tax year.

On the deductions side, you may be able to defer expenditure, such as repairs expenditure on let properties or capital expenditure on plant and machinery, until after 5 April 2010. Charitable Gift Aid donations, otherwise likely to be paid by 5 April, could be paid later.

Bringing taxable income forward into 2009/10 will also bring forward the tax liability on that income. More tax will be payable on 31 January 2011, which will have to be financed, but the 10% saving in tax should more than cover that finance cost.

The introduction of the 50% rate may also present an opportunity to consider your current wealth distribution and succession strategy more widely. In a family business, if there is one individual who is likely to be affected by the 50% rate, could the overall tax burden be reduced by splitting the profits with one or more other family members who will not be liable at 50%? This might be achieved by bringing them in as partners, or by introducing a family company partner subject to corporation tax rates at up to just 28%.

If you have considered the incorporation of your business in the past, you may wish to revisit this again now if the business is profitable and the profits are not required immediately for spending. The combination of lower corporation tax rates on profits in the company and a CGT rate of 10% (with Entrepreneurs' Relief) on disposal of the company, could reduce the overall tax rate to as low as 30%.

The new 50% income tax rate will further increase the gap between income tax rates and the CGT rate of 18% (reduced to 10% if Entrepreneurs' Relief is available). In light of this divergence in rates, more planning is likely to be seen around investment strategies which focus on capital growth rather than income yield and this may be a good time to review the balance of your investment portfolio with this in mind.

The 50% tax rate applies to all income of discretionary trusts in excess of £1,000.

Planning point

Consider bringing forward the payment of bonuses or dividends into the current tax year.

Consider deferring revenue or capital expenditure into the next tax year.

Consider spreading income or business profits more widely among family members or family companies.

Review your investment strategy and consider increasing the proportion of your portfolio invested for capital growth rather than income yield.

Trustees of discretionary trusts should consider making income distributions or creating revocable life interests before 6 April 2010.

Action taken to accelerate income or defer expenditure may impact on the tax relief available on pension contributions as discussed below.

PENSION PLANNING

Tax treatment

Investing in a pension plan is usually considered worthwhile because of the tax privileges. Tax relief on a pension contribution is at least 20%.

Pension funds are broadly free of UK tax on their capital gains and investment income. When you take the benefits, up to a quarter of the fund is normally tax-free, while the pension income is taxable. The main drawback is that the funds are generally inaccessible until age 50 and then only accessible in a rather restricted way.

From 6 April 2010, the minimum age for accessing pension benefits will rise to 55. Those aged between 50 and 54 should consider the relative merits of accessing their pension fund before 6 April 2010 or waiting until they reach 55 years of age (or later). Professional advice should be obtained.

The maximum you can hold in tax-favoured pension schemes is £1.75 million in 2009/10, rising to £1.8 million in 2010/11. You should review periodically the value of your pension fund compared to this lifetime allowance. Subject to "protected" pension fund values registered with HMRC before 6 April 2009, generally you will be penalised if you exceed this lifetime allowance with an effective tax charge of 55%.

Almost anyone in the UK under 75 years of age can pay up to £3,600 into a pension scheme each year and qualify for tax relief – even if they do not pay tax. A spouse, civil partner or parent could make the contribution on behalf of a spouse, civil partner or child.

Most pension contributions are paid after deducting 20% tax, so to put £3,600 into your pension you would currently pay £2,880 and HMRC would pay £720.

If you earn more than £3,600, you can pay up to the whole of your earnings into a pension scheme, but the tax relief is capped by the annual allowance of £245,000. The £245,000 cap does not apply in the year that the pension vests.

If you are a higher rate taxpayer, you currently get tax relief at 40% for your pension contributions. Limiting your contributions to amounts that qualify for 40% tax relief will give you the most benefit.

If you are a higher rate taxpayer with dividend income, you might be able to save tax at 42.5% by making a personal pension contribution if this means some of your dividends are no longer subject to higher rate tax. The reduction consists of the 22.5% difference between the higher (32.5%) and basic (10%) tax rates on dividend income and the 20% tax relief deducted from the pension payment.

From 6 April 2011, tax relief on pension contributions will be restricted for those with incomes of £150,000 or more. Although this change is still more than a year away, provisions have been introduced, which are effective now, to prevent individuals making increased contributions before April 2011 to benefit from current rates of tax relief. The April 2011 changes, and the "anti-forestalling" provisions, are discussed in greater detail in a separate section below.

Contracting out of State second Pensions

Many employees who have contracted out of the State Second Pension (S2P) and transferred part of the NICs to their personal pension plans should consider contracting back in. You have to make the decision to contract back in (or to contract out) for the current year before 6 April 2010. This is a complicated matter and professional advice is essential.

Planning point

If you are a higher rate taxpayer, consider paying contributions before the end of the tax year to qualify for higher rate tax relief.

If your income in the current tax year, or the two previous years, is £150,000 or more, you should consider the impact of the anti-forestalling provisions described in the following section before making any decision on the level of pension contribution to be paid before the end of the current tax year.

HIGH INCOME AND PENSION PLANNING

New rules

Pension contributions have long been recognised as a particularly tax-effective form of investment. Contributions obtain full income tax relief at up to 40%, the funds themselves are broadly free of income tax and CGT, and a tax-free lump sum of one quarter of the fund can generally be taken on retirement.

From 6 April 2011, however, the income tax relief on contributions paid to pension schemes will be restricted. For those with total incomes over £180,000, relief will be restricted to the basic rate only (currently 20%), and between £150,000 and £180,000 a tapered rate of relief will apply. To prevent individuals making large additional contributions to their pensions prior to 6 April 2011 in order to benefit from higher rate tax relief, "anti-forestalling" rules have been introduced that apply to contributions made in 2009/10 and 2010/11.

As these rules are designed to catch additional, extraordinary contributions, there is "protection" for normal regular contributions. So if you and/or your employer have been making contributions to a pension scheme at least quarterly in the past, you will continue to receive full tax relief on those contributions in 2009/10 and 2010/11, so long as the level of contribution is not increased.

The rules will not catch increases in contributions, however, so long as the total pension savings in a tax year do not exceed a new Special Annual Allowance (SAA) of £20,000. So if you have made regular contributions in the past of, say, £1,000 per month and now increase that to £1,500 per month, you will continue to obtain full tax relief on your contributions as the new annual contribution total of £18,000 will be within the SAA.

Many individuals, such as business owners, do not make regular contributions and look at their pension planning, as we have suggested above, as part of their wider year-end tax planning. For those making irregular contributions, the anti-forestalling provisions will allow full tax relief in 2009/10 and 2010/11 on an amount equal to the average of their contributions in 2006/7, 2007/8 and 2008/9, but subject to an overriding maximum of £30,000.

If your income is £150,000 or more and you make additional pension contributions in 2009/10 (or 2010/11) which take your total pension savings above the SAA, the penalty will be in the form of a Special Annual Allowance Charge which will reduce the tax relief on the excess contributions to the basic rate of 20%.

If your taxable income in 2009/10 is below £150,000, you may consider that the anti-forestalling rules do not apply to you, but the rules are more complicated than that. Firstly, the rules apply if your income is more than £150,000 in 2009/10 or in the previous two years, so you will need to look back at your previous income levels. Secondly, if your taxable income is £130,000 or more you must add pensions contributions paid by your employer to determine whether your income exceeds the £150,000 limit.

If this is the first year when your income will be over the £150,000 limit, you may consider ways in which your income can be reduced below that figure. Gift Aid payments, for example, will reduce your relevant income for the purposes of the anti-forestalling rules. However, bear in mind that the strategies you might adopt to reduce your relevant income in 2009/10 for pension purposes may be the opposite of the strategies you might want to adopt in planning for the introduction of the 50% rate!

These anti-forestalling rules are complex and you should discuss them with your usual Saffery Champness contact before taking action. In particular, detailed advice should be obtained if your income is between £130,000 and £180,000, and you are considering making an annual pension contribution or increasing your regular contributions.

Planning point

Consider increasing your regular pension contributions in 2009/10 and 2010/11 to obtain full tax relief up to the new Special Annual Allowance limit of £20,000.

For those making irregular or annual contributions, up to £30,000 can be contributed in 2009/10 and 2010/11 with full tax relief being obtained.

Consider ways of reducing your income below £150,000 such as by making Gift Aid payments.

TAXPAYERS AGED 65 OR OVER

Planning point

If you have reached the age of 65 by 5 April 2010, you may qualify for a higher personal allowance. You might also qualify for a married couple's allowance if at least one partner in a marriage or civil partnership was born before 6 April 1935.

The extra allowances are reduced in 2009/10 by £1 for every £2 of taxable income above £22,900. Reducing your income to this level could save tax at an effective rate of up to 30%.

One way of doing this, if you are under 75, is to make personal pension contributions of up to £3,600 (before deducting tax relief). You do not need any earnings, and you could even draw the pension immediately, including a 25% tax-free lump sum.

Other possibilities are transferring investments to your partner (provided this does not reduce their allowances) and switching into investments that generate capital growth rather than income.

INVESTMENT INCOME

Bank and Building Society interest

Tax is deducted at source from interest in bank and building society deposits. If your income for a tax year is not expected to exceed your personal allowances, you may ask to receive the interest without deduction of tax by completing form R85.

Planning point

It might be worth bringing forward your investment income into this year by closing an account before 6 April 2010, especially if you are a basic rate taxpayer now but are likely to pay higher rate tax in 2010/11.

MORTGAGES AND LOANS

Mortgages

You could consider using spare capital to repay mortgages provided that there are no penalties on early redemption. The interest saved usually offers a better rate of return for a higher rate taxpayer than bank and building society interest. Alternatively, if the rates are attractive, use a combined mortgage and savings account. The mortgage will be repaid quicker and as no interest is received, there will be no tax on your savings.

Other loans

Although domestic mortgages do not attract tax relief, some loans do: for example, a loan used to buy into a partnership or close company and to purchase an investment property. Where appropriate transactions can be undertaken, your total borrowings should be structured so that the maximum tax relief is achieved. There are pitfalls, particularly where existing loans are replaced, so advice will be required.

PROPERTY (LETTINGS)

Lodgers

You can let a furnished room in your home to lodgers or bed and breakfast guests for a gross annual rent (including all services) of £4,250 (£2,125 per person if it is jointly let), without incurring a liability to income tax. Where the income exceeds the limit, you can either elect for the excess to be charged to tax, or calculate your rental income and expenses in the usual way.

REMITTANCE BASIS FOR THE NON-UK DOMICILED

Remittance basis charge

The annual £30,000 Remittance Basis Charge (RBC) applies to those non-UK domiciliaries who have been tax resident in the UK for at least seven out of the previous nine years and wish to continue to be taxed on a remittance basis.

If an individual claims to be taxed on the remittance basis they will not be able to claim personal allowances or the annual CGT exemption. As a result of the loss of allowances and the level of the RBC, it may not be worth claiming the remittance basis of assessment. Instead the individual can choose to be taxed on worldwide income on an arising basis.

The £30,000 RBC only applies when a claim for the remittance basis is made. A claim will not be required for individuals with unremitted income and gains of less than £2,000 in a year and as such they will still be entitled to personal allowances and the CGT annual exemption. If both spouses/civil partners are non-UK domiciled then it may be worth considering holding the sources of unremitted income or assets likely to give rise to gains in the hands of one person only, so as to reduce unremitted income and/or gains to less than £2,000 for the other, thus incurring only one charge.

When considering residency status, and in particular in determining physical presence in the UK, it is now presence in the UK at midnight that is considered for day counting purposes. The previous accepted treatment of excluding days of arrival and departure no longer applies.

In order to ensure that your UK tax is kept to a minimum the following points should be considered:

- The possibility of holding sources of unremitted income or gains in the hands of only one party to a marriage/civil partnership.
- The £30,000 RBC is a deemed tax charge on nominated income and/or capital gains. It is important that nominated income or gains are not inadvertently remitted to the UK as this can lead to an overall increase in the individual's UK tax liability.

Planning point

Non-domiciled individuals who have been resident in the UK at 5 April 2009 for seven out of the previous nine years will be regarded as "long-term residents" in the 2009/10 tax year and should seek professional advice regarding the application of the remittance basis rules and the RBC to their specific circumstances.

Non-domiciled individuals who were subject to the new regime in 2008/9 should review their sources of non-UK income and gains in 2009/10 and the amounts remitted to the UK, bearing in mind the extended definition of "remittance" which has applied since 6 April 2008. Professional advice should be sought regarding whether a remittance basis claim will be appropriate for the 2009/10 tax year.

TAX-EFFICIENT INVESTMENTS

Some investments have income tax and CGT advantages.

Individual Savings Accounts (ISAS)

Support for tax-efficient saving continues to be available via ISAs. In the 2009/10 tax year, if you are under 50 on 5 April 2010, you can invest up to £3,600 in a cash ISA and up to £7,200 in a stocks and shares ISA. The total permitted investment is limited to £7,200, so if you invest, say, £2,000 in a cash ISA, you can only invest £5,200 in a stocks and shares ISA. If you do not invest the full amount, the surplus ISA "capacity" cannot be carried forward or transferred. For those aged 50 and over, the ISA allowance for 2009/10 is increased to £10,200, with a cash ISA limit of £5,100.

From 6 April 2010, the ISA allowance for all investors, regardless of age, will be £10,200, with a cash ISA limit of £5,100.

ISAs are free of UK tax on investment income and capital gains, although, as with other investments, it is not possible to reclaim the tax credits on UK dividends. There is a choice of investments, including equities and fixed interest securities.

Remember that 16 and 17 year olds can open a cash ISA, so you may wish to provide funds for young relatives to invest. However, if you give money to your own children, the interest must not exceed £100 a year, otherwise you will pay tax on it.

Enterprise Investment Scheme

Another tax-efficient investment that has proven popular is the Enterprise Investment Scheme (EIS). The EIS gives tax relief for investing in new shares in relatively small qualifying trading companies that are not listed on any Stock Exchange.

Income tax relief is given at 20% on up to £500,000 invested in 2009/10. Income tax relief on shares issued in 2009/10 may also be carried back to the previous year, subject to the limit on relief in that year. For example, an investor who made no EIS investments in 2008/9 could elect to carry back £500,000 of an EIS subscription of £750,000 made in 2009/10, so that the full investment obtains relief.

Capital gains on EIS shares escape CGT after three years. It is also possible to defer CGT on a gain of any size, on the disposal of any asset, by reinvesting in shares that qualify under the EIS. An EIS investment can be used to defer gains made up to three years earlier. It should be noted that tax rates may increase and therefore tax may be payable at a higher rate in the future on a deferred gain.

Venture Capital Trusts

You can obtain income tax relief of 30% by subscribing up to £200,000 for shares in Venture Capital Trusts (VCTs) in 2009/10.

Gains are generally exempt from CGT. VCTs are investment trusts that invest in a range of relatively small trading companies.

It is important to remember that EIS shares and VCTs are high-risk investments and so may be difficult to sell.

You should bear in mind that the value of your investment can go down as well as up and past performance is not a reliable indicator of future performance.

Planning point

The end of the tax year is the deadline for using the current year's investment limits for ISAs, EISs and VCTs. If you do not invest in these up to the investment limits for the tax year, the shortfall amount cannot be carried forward or transferred.

INHERITANCE TAX

Inheritance tax (IHT) is payable at 40% if a person's assets at death, plus gifts made in the seven years before death, add up to more than the nil rate band. This is £325,000 for 2009/10 and will be frozen at that level for 2010/11 (a previously announced increase to £350,000 was reversed in the 2009 Pre-Budget Report).

It may be possible to buy life assurance written in trust to fund any exposure to IHT.

A gift of an asset is an IHT event although a liability to IHT may only arise if the donor dies within seven years. You could look to turn poor economic conditions to your advantage by considering making gifts of assets now as some of your assets may be standing at a relatively low value.

In general, transfers to spouses or civil partners are wholly exempt from IHT and therefore will not give rise to an IHT liability. However, when a UK domiciled individual has a non UK domiciled spouse or civil partner the amount of the exemption is restricted to £55,000.

When a surviving spouse or civil partner dies, their estate will benefit from any unused IHT nil rate band of their previously deceased spouse or partner. The transferred proportion is uplifted to the same fraction of the nil rate band in force at the date of the second death. However there are some limitations, especially if one or both partners have been married more than once.

Most IHT planning is not related to the tax year end, though this is as good a time as any to review your Will. Under English law, a Will is revoked on entering or leaving a marriage or civil partnership. Therefore you should ensure that your Will is still current.

There are a number of reliefs and exemptions, some of which are related to the tax year.

Gifts totalling up to £3,000 in a tax year are exempt from IHT. If you made no gifts to use this exemption in 2008/09, you can make IHT-free gifts of up to £6,000 before 6 April 2010. If you have already used your £3,000 exemption for 2009/10, you could delay your next gift until after 5 April to take advantage of the 2010/11 exemption.

Regular gifts out of excess income can also be exempt. You need careful documentation to prove that you make the gifts from income rather than capital.

If IHT planning in the past has left you liable to income tax on 'pre-owned' assets, consider whether you could save money by paying something for the benefit you receive – e.g. rent on a property previously given away but which you continue to live in. This is a complicated area of tax and you should obtain specialist advice. Consider the use of family partnerships or family investment companies if trusts are no longer appropriate due to the recent changes in the IHT treatment of trusts.

Planning point

The end of the tax year is a good time to take stock of the assets in your estate and their value, and to consider whether your Will is current and properly reflects your wishes for the destination of your estate.

CHILDREN

Children can have tax-free income of up to £6,475 in 2009/10. However, income of more than £100 a year derived from a gift from a living parent is taxed as the parent's income if the child is less than 18 years old and unmarried.

Older teenagers could work in a parent's business for a reasonable salary. Where a child is a beneficiary of a discretionary or an accumulation and maintenance trust, the trustees could distribute some income and the child could reclaim some or all of the 40% tax paid on the distribution.

Child Trust Fund

You can add £1,200 a year to a Child Trust Fund for children born after 31 August 2002, though this allowance is not for the tax year but for each 12-month period since the child's birth.

CHARITABLE GIVING

You can get tax relief for cash gifts to charity if you make a Gift Aid declaration.

You make the gift out of your taxed income and the charity benefits by claiming back basic rate tax on the value of the gift. Higher rate taxpayers can claim extra tax relief of 20%. Make sure that the charity that you support is provided with a Gift Aid declaration to ensure that all gifts get tax relief both in the hands of the charity and for you if you are a higher rate taxpayer.

The charity must be a registered charity. You can visit www.charity-commission.gov.uk (www.oscr.org.uk for charities registered in Scotland) to make sure that your charity is listed.

Although the basic rate is now 20%, charities receive tax repayments at the former 22% rate on donations made up to 5 April 2011.

You can elect for donations made in one tax year to be treated for tax purposes as if you had made them in the prior year. This will benefit you if you were a higher rate taxpayer in the earlier year, but not in the later year.

The election must be made in writing at the same time as, or before, filing your tax return for the earlier year and this must not be later than the filing deadline for the tax return for the earlier year. Therefore you will not be able to take advantage of this for 2008/09. However, you can make a charitable donation before 31 January 2011 and claim relief for this in 2009/10 if you wish.

You can also obtain both income tax and CGT relief on gifts to charities of shares listed on the stock market and certain other investments.

Gifts to charity are free of IHT, so remembering a charity in your Will can reduce the total amount of IHT to be paid on your estate.

SELF-ASSESSMENT: KEY DATES

You are responsible for filing your tax return on time. If you have not been issued with a return (or a notice to file a return) and you have an income tax or CGT liability then you should notify HMRC of your chargeability to tax by 5 October following the year in which the liability arose.

Failure to notify chargeability, or to file your return on time, may attract penalties. The penalties for late filing and late payment referred to below are those applicable under current legislation. The Finance Act 2009 sets out a revised, more stringent penalty and surcharge regime that will be introduced at a later date. It may apply to tax returns submitted for the 2009/10 tax year.

There is a distinction between the filing deadlines for 'paper' and 'electronic' returns and this is detailed below. If you file your paper return by 31 October, HMRC will calculate your tax. If the return is not filed by this date you (or your advisor) must do the calculation.

If an electronic return is filed, HMRC will calculate the tax due.

You should ensure that you have the resources to pay any outstanding tax by the due dates so that you do not incur any interest or surcharges. The key dates are as follows:

6 April 2010
The new tax year starts. A Tax Return or Notice to Complete a Tax Return (SA316) will be sent out to all people who meet the criteria to get a Tax Return each year.

31 July 2010
Payment date for the second payment on account for 2009/10. A second automatic 5% surcharge will apply to any outstanding 2008/09 tax. Un-filed 2008/09 returns attract a further £100 penalty. HMRC also has the option to charge a £60 daily penalty for a persistent failure to file a return.

31 October 2010

Date for submitting 2009/10 paper returns. HM Revenue & Customs should be able to:

- Calculate your tax for you
- Tell you what to pay by the following 31 January
- Collect tax through your tax code (if possible) where you owe less than £2,000

If you file your tax return online the deadline is later (see below) because the system calculates your tax liability for you automatically on-screen.

Note that (except in special circumstances) if the paper return is submitted after this deadline you will be charged an automatic £100 penalty.

30 December 2010

If you file your tax return online you must do so by this date if you want HMRC to collect tax through your tax code (if possible) where you owe less than £2,000. Otherwise you can file up to 31 January.

31 January 2011

The latest filing deadline for 2009/10 electronic returns.

1 February 2011

If you were sent a Tax Return by 31 October 2010 you will be charged a penalty of £100 if your return is not received by HMRC by this date. There is a £100 penalty per partner for a late partnership return.

28 February 2011

An automatic 5% surcharge is levied on any unpaid tax from 2009/10. This can only be mitigated in a limited number of circumstances where you have a 'reasonable excuse'. We can advise you further on this if necessary.

CONCLUSION

Whilst many headlines this year have been dominated by stories of higher taxes and decreasing allowances, careful planning does still present many opportunities. The Government has also announced a range of tax-saving measures designed to help both businesses and individuals deal with the impact of the recession. Some of these are only available for a limited period.

Specific items to consider before 5 April 2010 are as follows:

- Use your Capital Gains Tax Annual Exemption (£10,100 in the 2009/2010 tax year) as this cannot be carried forward or transferred.
- Use your Inheritance Tax Annual Exemption of £3,000. You may also wish to consider the use of the prior year Exemption if this has not already been utilised.
- If you make payments into an ISA you may wish to ensure that you have invested your current year maximum allowance. Unused annual allowances cannot be carried forward.
- Non-UK domiciliaries need to give careful consideration to their position and the implications of making a claim for the remittance basis and paying the Remittance Basis Charge of £30,000. Specific advice should be sought in relation to your individual circumstances.
- Consider advancing the receipt of income, deferring expenditure and/or sharing profits more widely amongst other family members to reduce the impact of the new 50% additional income tax rate.

- Consider making pension contributions to obtain tax relief and to place monies in a tax-favoured investment environment. Those on high incomes (£130,000 or more), however, should seek specific advice if they are considering increasing their current level of pension contribution or if they make annual contributions.

This brief review of end of year tax planning can only cover the main areas in outline.

Although saving tax is important, there are other factors you should always consider before taking action:

- Always try to look at your tax planning in the overall context of your general financial planning.
- Make sure you have enough money to meet your personal and business needs.
- Ensure that any investment meets your needs in terms of risk and potential profitability.
- The value of investments can go down as well as up and past performance is not a reliable indicator of future performance.
- Some tax-saving actions involve risks.
- Flexibility is generally desirable, even if it involves costs or saves less tax.
- The costs and inconvenience of implementing some tax-saving strategies might not always be worthwhile. Take specialist advice when seeking to implement any new strategy.

For many, this tax year is a crucial one and some of the reliefs and rates available are unique. The pre year end planning decisions you take could bring significant benefits if they result in the application of the current tax regime to your income, gains and reliefs. Whether you are in business, an investor or an employee, there may be measures you can take to save tax. We already know that after 5 April 2010, the tax regime will be less favourable in a number of areas and further increases in tax rates, and restrictions in reliefs, cannot be ruled out.

USEFUL WEBSITES

www.hm-treasury.gov.uk
Treasury site for speeches, legislation and economic data.

www.businesslink.gov.uk
Helpful advice for businesses.

www.direct.gov.uk/en/index.htm
The official Government website for citizens.

www.hmrc.gov.uk
HM Revenue and Customs site for information about tax, child and working tax credits, VAT and stamp duties.

www.hmrc.gov.uk/cto/customerguide/page1.htm
HMRC guide to inheritance tax.

www.dwp.gov.uk
The Department for Work and Pensions.

www.direct.gov.uk/en/Pensionsandretirementplanning
Information about pensions and pensioner benefits.

www.ft.com
Financial and market analysis.

www.hmrc.gov.uk/menus/charity.htm
Information about charitable giving.

www.charity-commission.gov.uk
More information about charities and details of registered charities in England and Wales.

www.oscr.org.uk
Information about charities and details of registered charities in Scotland.

www.childtrustfund.gov.uk
Information about the Child Trust Fund.

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