Forbes Dawson
THE TAX SPECIALISTS

Private Client Update
5 April 2013 Tax Planning

Quick summary

- Increase in the Personal Allowance to £9,440 from 6 April 2013.
- The additional income tax rate is decreasing from 50% - 45% from 6 April 2013.
- Reduction in the effective rate of tax on dividends for additional rate tax payers to 30.55%
- It is important to maximise all pension contributions and charitable donations pre 5 April 2013.
- Dividends and bonuses should be deferred till post 6 April 2013.

Contact us

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Year End Tax Planning - Reducing Your Tax Bill

The period leading up to 5 April is one of the best time to review your taxes and finances to reduce the taxman's take. There are a number of 'easy wins' for achieving tax savings.

Here is our summary of the important year end tax tips to identify areas that should be considered. This flyer is only a summary of ways we can help to reduce your tax bill. Tax advice should be sought prior to implementing any of the suggestions below to ensure they are tailored to your circumstances.

Summary – Change in Tax Rates/Allowances

	2012/13	2013/14
Personal Allowance	£8,105	£9,440
Basic Rate Band	£34,370	£32,010
Additional Rate	50%	45%
Dividend Effective Rate of Tax for Additional Rate Payers	36.11%	30.55%

Income Tax

Deferral of Dividends and Bonuses

- Defer the payment of dividends and bonuses till post 6 April 2013. By deferring bonuses for individuals with high incomes, this may save the personal allowance for those with an income is excess of £100,000 and 50% tax for those with an income in excess of £150,000.
- By deferring dividends for individuals with high income, this will save tax due to the effective rate of tax on dividends for additional rate payers reducing from 36.11% to 30.55%.

Income Splitting

- Each spouse is taxed separately, and so it is important to maximise personal reliefs and the starting and basic rate bands.
- The personal allowance can not be transferred between spouses it may be beneficial to consider gifts of assets (which much be outright and unconditional) to distribute income more evenly. The 50% tax rate will decrease to 45% from 6 April 2013.

Gift Aid Payments

- Charitable donations under gift aid can result in 40% relief if the donor is a higher rate taxpayer. Where the additional 50% rate of tax applies, the a donation will result in 50% relief.
- As the 50% rate is to decrease to 45% with effect from 6 April 2013, it would be good to maximise all donations. Tax relief against 2012/13 income is available for charitable donations made between 6 April 2013 and 31 January 2014 providing payment was made before filing 2013 tax return.

Capital Allowances – Temporary Increase in AIA

- The AIA was set at an annual rate of £25,000 for 2012/13 but has been increased to £250,000 for expenditure incurred after 1 January 2013 (for a two year period beginning with this date). It is better to defer any capital expenditure until post 6 April 2013.

Pension Contributions

- There is a single lifetime limit of £1.5 million on the amount of pension savings that can benefit from relief. In addition, there is an annual limit of £50,000, which can be contributed annually. This includes employer and individual contributions.
- Relief is available on pension contributions at the taxpayer's marginal tax rate. Higher rate payers can pay £100 into a scheme at a cost of only £60. Additional rate payer pay £100 at a cost of £50.
- Where the £50,000 annual limit has not been fully utilised in the previous 3 tax years, up to £200,000 can be contributed in 2012/13 and obtain full tax relief.
- All individuals including children can obtain tax relief on personal pension contributions of £3,600 (gross).
- From 2014/15 the lifetime limit is reducing to £1,250,000 and the annual allowance will be reduced to £40,000.

Capital Gains Tax

Annual Exemption

- The first £10,600 of gains are free of capital gains tax as they are covered by the capital gains tax exemption.
- A transfer of assets between spouses may enable them to utilise their annual exemptions. The 'Bed and Spouse' rules might be caught by the new General Anti Avoidance Rule. We suggest advice is taken before undertaking this planning.
- Consider selling assets standing at a gain before the end of the tax year to utilise any annual exemptions.
- Assets which are standing at a loss should be sold to mitigate any capital gains arising in the year over the annual exemption.

Other Ideas

- A gain can be deferred if it is reinvested in the shares of a qualifying EIS company.
- A capital loss can be claimed on an asset that is virtually worthless. Where the asset is of "negligible value" by 5 April 2013 the capital loss can be used in 2012/13.

Tax Efficient Investments

- ISAs provide an income and capital gains tax free form of investment. Make sure that you are fully utilising the limits of:
  - Cash ISA - £5,640
  - Stocks and shares - £11,280 (*)

  (*) this limit is capped to ensure that total ISA investment does not exceed £11,280 in a tax year.
- EIS investments allow income tax relief on new equity investment. For EIS that is 30% relief on investments of up to £1m in 2012/13. A capital gains tax exemption is available on qualifying shares held for at least 3 years.
- VCT investments allow for 30% income tax relief in the year of investment up to £200,000. An investor will be exempt from income tax and capital gains tax arising from the disposal of shares – provided the investment is held for 5 years.

Inheritance Tax

- Utilise inheritance tax exemptions - £3,000 annual exemption.
- Review Wills to ensure they reflect current wishes and intentions and is tax efficient.
- Consider gifts into discretionary trusts, which will enable you to reduce tax whilst retaining control of assets.