Tax-planning checklist

Now that we’ve passed the April 5 deadline, it is time to consider what tax-planning ideas and opportunities are available for the 2009/2010 tax year. Thomas Dickson explains

There’s quite often a rush at the end of the tax year to make sure you’ve maximised on all the tax savings you can. As always, we had pension cheques arriving right up to the end of the tax year and we were submitting ISA’s right up until the last working day. However, you’ve actually got 52 weeks before then to arrange your finances and maximise the tax relief available. Some of the following ideas could save you a considerable amount of money.

Investments

Make sure you make the most of tax allowances every year. Invest in tax-exempt investments – such as ISAs (max investment £7,200 or £14,400 from 6 October for those over aged 50) and friendly society plans, such as Dentists’ Provident. If you’ve used up your ISA allowance you can invest additional capital in unit trusts where the dividend or yield is zero per cent. If there’s no dividend income there’s no income tax payable. The only tax you then need to worry about is capital gains tax (CGT – see Part 2 for ways to minimise that tax).

If you’re married, it can sometimes be worth spreading income-producing assets such as savings or investment properties, between spouses to make the most of their personal allowance and basic rate of tax.

Consider investing in Enterprise Investment Schemes & Venture Capital Trusts to reduce your income tax liability by 20 per cent and thirty per cent respectively of the amount invested (max investment allowable for this purpose is £500,000 EIS; £200,000 VCT), but ensure that the investment is suitable to your attitude to risk.

Gifts for children

It is possible to make use of children’s and grandchildren’s income tax personal allowances by establishing suitable trusts to hold investments. In particular, provided the donor is happy that the child/grandchild will be absolutely entitled, a bare trust could be considered.

Remember, however that where a parent creates a trust for a minor, unmarried child, under which that child is entitled to the income, and the income exceeds £100 gross in a tax year, it will be assessed on the parent, regard-less of whether it is distributed or accumulated.

The Capital Gains Tax upside of a bare trust is the ability to offset the child’s annual CGT exemption against capital gains. An alternative would be a discretionary trust, which gives more control over the assets gifted and secures an income tax benefit.

Income tax

Make use of your personal allowance of £6,475. For example, consider using a spouse’s personal allowance. Note, however, that salary should be justifiable and paid. Also consider distributing income to minors from a non-parental (to avoid above £100 rule) discretionary settlement.

If you’re over 65 you will start to lose your additional age-related personal allowance once your income is higher than over £22,900, so plan your investments and pension withdrawals carefully.

Pension planning

Since April 6th 2006 the contribution limit for pensions has increased. You can now contribute up to your net relevant earnings every year subject to a maximum of £24,500 in 2009/2010. For a higher rate taxpayer pay less than £15,000 (see below) this will reduce your effective income tax liability by forty per cent of the contribution made.

You can contribute up to £5,600 a year into a pension with no evidence of earnings, which means you can claim relief on tax you’ve not even paid. This is an ideal option for investing on behalf of non-working spouses, or for grandchildren and you can claim a further £170 pa (twenty per cent of £5,600).

For those earning under £150,000 a year, tax relief for pension contributions is obtained at your highest rate. So for a higher rate taxpayer the effective net cost is only £60 every £100 contribution. For those with incomes over £150,000 or more this year (or in either of the last two years) then, from now on, you will only be able to claim higher rate relief on the first £20,000 you contribute. There are however a couple of exceptions to this.

Regular pension contributions that were in place prior to 22 April 2009 are ignored, and importantly this includes dentists contributing to the NHS Pension Scheme. So even if your existing regular payments into the main NHSPS, added years, additional voluntary contributions, personal pensions, stakeholder schemes and so on add up to more than £20,000 of ‘relevant income’ they will be protected.

The other exception applies to those who have income between £150,000 and £169,999 this year, but who have not had income of £150,000 or more in the previous two years. The rules would actually allow you to make a pension contribution of up to £20,000 now, which has the effect of reducing your income to less than £150,000 and therefore you can still claim the 40 per cent tax relief.

You also need to watch out you don’t exceed the lifetime allowance (LTA) of £1.75 million – this is the total amount that can be accumulated within all your pensions. To calculate your LTA, multiply your NHS retirement income by 25 and add any private income. So if you’re expecting an NHS pension income of £4,500 a year and you have private pension assets of over £700,000, you will need to take action.

For those who need to increase their NHS pension, provided you are still a member of the NHS pension scheme you can now (since April 2008) buy an increased retirement pension of up to £5,000 by paying simply contacting NHS Pensions at Hesketh House and arranging to increase your superannuation contributions.

Those with private or NHS income can also make contributions to a personal pension plan.

In Part 2 of this article, I will be examining further potential savings to be made, covering Capital gains Tax, Estate Planning and Charity Gifts.