Tax-planning checklist

Now that we’re well past 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 in the second of this two-part feature

Capital Gains Tax (CGT)

Capital Gains Tax is now set at a flat rate of 18 per cent of any net gain (gain after expenses) and entrepreneurs’ relief has also recently been introduced which charges tax at a rate of 10 per cent on certain business gains up to a cumulative lifetime limit of £1m. Although it’s not good news for landlords, buy-to-let properties however have specifically been excluded from this relief.

For any gains made in this tax year the CGT will be payable on 5 January 2011, so if you can wait until 6 April 2010 to sell your investment, there would not be payable until 2012. Another often-used method to reduce CGT is to transfer assets between spouses before sale to utilise both annual allowances. Reinvest allowances could help you to realise some gains for personal use.

For any gains made in this tax year you must declare the amount to HMRC, so do not spend all the money. You could also consider a “deed of variation” where an inheritance has been received in the last two years to make the distribution of the inheritance more tax efficient.

If you’re living with your partner, but not legally married, your estate could be left with a large inheritance tax bill as a result. This is because if you leave your estate to your partner and the value exceeds £255,000 then tax will be due at 40 per cent. However, if you are married, the entire estate is exempt.

Another common mistake is that people don’t realise their life insurance is included in their estate when they die, so review whether you can put them in trust for your children or beneficiaries and you might be able to save thousands of pounds of tax. Who would rather have your money – your beneficiaries or HM Revenue & Customs?

One of the simplest methods of inheritance tax planning is to make full use of each year’s annual exemptions, such as:

- Annual exemption – £3,000 (you can also use £5,000 for 2009/2010)
- Small gifts exemption – max £250 per donee (person receiving the gift) per tax year
- Gifts out of normal expenditure – for example, premium payments to a life insurance policy under trust will often be a simple way of transferring the asset with no tax implication.

To maximise your tax allowances you would need to make claims at the end of each year, and after two years the assets benefit from ‘transitional relief’ – to adjust to the increased nil rate band.

Charity gifts

Charities can reclaim the basic rate of tax of 20 per cent on Gift Aid donations. This means that for every £1 donated, the charity can claim an extra 25pence. Charity income is therefore not used and the extra money is used to pay the charity’s further costs. This additional tax can be beneficial for avoiding Inheritance Tax.

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Transferring assets may also be beneficial for avoiding Inheritance Tax. Lifetime gifts to bare trusts are Potentially Exempt Transfers. No inheritance tax is due on these ‘PETs’ if the donor survives for seven years. If the asset is sold within seven years there may be an IHT charge if the donor dies within that time so don’t spend all the money.

Another approach taken to avoid IHT is to buy shares or securities in Alternative Investment Market (AIM) listed stock. After two years the assets benefit from the reduced nil rate of £325,000.

About the author

Thomas Dickson was brought up in Hong Kong and studied Acton University Birmingham and in Tokyo. Thomas started working as a financial adviser in 1995, became an Independent Financial Adviser in 1996, and is now a Director of Essential Money Limited. Essential Money provides independent financial advice to dentists throughout the UK. Thomas has been awarded the advanced Financial Planning Certificate by the Chartered Insurance Institute and is a Certified Financial Planner.

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