

Proper planning prevents poor performance

■ Financial planning

AS THE economy recovers, we have to start paying for the government spending that stopped the country from completely falling apart over the past 18 months writes *Chris Floyd*, tax manager at *Landers the Accountants*. As we approach the start of a new tax year, the payback begins.

A previous article discussed the new top rate of tax of 50 per cent for anyone with an income of more than £150,000 and an effective rate of 60pc for the amount between £100,000 and £112,950. Everyone affected by this will appreciate the need to review their affairs to ensure that they do not pay any more tax than they need to. But what can you do without reducing your income or wealth?

There are some simple strategies, which are also effective for those trying to keep out of the 40pc band. Some are more obvious than others and not everything is appropriate to everybody but the following are among the things that should be considered:

Sharing Sharing assets and income with your loved ones can help to keep the combined tax bill down. You should make sure that income-producing assets are owned by the right partner from the outset. It is possible to transfer ownership of income-producing assets but a degree of caution is required so that other problems are not created.



● **Chris Floyd**

Now may also be a good time to consider passing on income producing assets to future generations.

Timing Extra dividends or bonuses paid before April 6 will be taxed at 32.5pc and 40pc respectively in the hands of the recipient. The same payments made after this date could be taxed at 48.75pc and 60pc. However, planning in this area needs to take into account the pros and cons to the business as well as considering the earlier payment of the tax.

Company Car The current trend is to have a higher salary and buy your own car. For many people this is (financially) the most effective option. However, with preferential treatment for those driving less environmen-

tally damaging vehicles, the opposite may be true. The variables are many and the rules are complex so it is important to get proper advice for your own particular circumstances.

Pension contributions Contributions to personal or company pension plans have long been used in financial planning. As the rules change over the next couple of years, it is important to review arrangements to ensure that you make best use of the available reliefs without falling foul of the new regulations.

Investments There are several tax-efficient investments readily available. Now is not only a good time to consider making maximum use of your annual ISA allowance but it is also a wise time to consider whether an Enterprise Investment Scheme or a Venture Capital Trust would be the right investment for you. Investing for capital growth, rather than income, will mean that you will pay a maximum of 18pc capital gains tax as opposed to the potential 60pc (or higher) income tax in the future.

Charitable Donations If your income is creeping into the 50pc or 60pc tax bands, making sure you claim gift aid on your donations could save you between 30pc and 40pc.

A £80 donation may in fact only cost you £40 of your net income.

Partnerships Introducing a spouse or civil partner into a partnership may help to reduce the overall tax and national insurance contributions paid.

Trusts Trusts pay income tax at the highest rates on almost all of its income. However, there is some scope for reducing the tax burden if the type and structure of a trust is reviewed and amended at appropriate times.

There are other planning opportunities for businesses that are implementing or considering changes. Extracting profits before the sale of a business can be done very efficiently. The proper structuring of new or growing businesses can minimise the tax burden on those extra profits.

Tax planning is something that should be done regularly by all business owners. The process should consider the tax position of both the business and its owners.

It is not too late to plan for your future, but delaying any further could add up to 20pc to your tax bill from April.

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Published in association with

LANDERS | THE ACCOUNTANTS

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