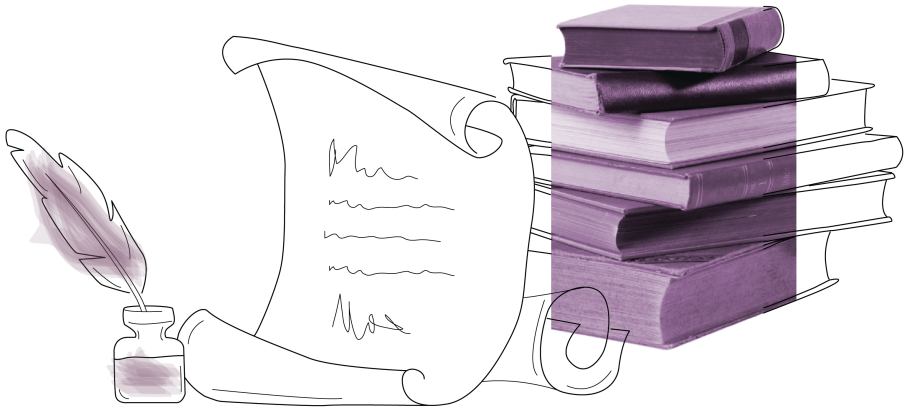
Sweeter tax planning
year ending 5 April 2014



Year-end planning pre 5 April 2014

This document covers a number of actions that you may wish to consider before the end of the tax year. It is important that you utilise any exemptions or limits that may be available to you.

The notes in this document contain generic information for you to consider. Where a suggestion is of interest to you, professional advice should be taken before implementing any ideas.

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Personal allowance

It is important to try and use your annual tax-free personal allowance, for 2013-14 this allowance is £9,440. Remember, of course,the personal allowance is reduced by £1 for every £2 of net income over £100K. To take full advantage of the allowance, married couples and civil partners can transfer assets giving rise to income so that it might either be covered by unused allowances or be taxed at a lower rate.

PAYE Notice of Coding

It is important to ensure your PAYE notice of coding is correct. HMRC are increasingly using the PAYE notice of coding to collect income tax in respect of savings or rental income during the year. These can be removed from your notice of coding should you wish. You may also wish to check whether you are able to claim a flat rate expense, these approved rates can be found on the HMRC website and can be included within your notice of coding.

Charitable donations

Provided you pay income tax at the basic rate of 20%, you are able to obtain relief on charitable donations at your marginal rate, remember to record details of charitable donations you make. Donations made under Gift Aid may be particularly tax effective before 5 April 2014, where individuals will lose all or part of their personal allowance because their income exceeds £100,000. The effectiveness will depend upon the individuals circumstances.

ISAs

ISA's are a tax efficient way to save. The maximum amount that an adult can invest into an ISA for 2013-14 is £11,520, of which, up to £5,760 can be saved in a cash ISA. You do not pay tax on any interest or dividends received from an ISA and you are not liable for CGT if you make any profits from investments.

Income tax general planning for individuals

Pension contributions

Anyone can automatically get tax relief at 20% on the first £3,600 paid into a pension each year. The amount you save each year toward a pension for which you can receive tax relief is subject to an 'annual allowance', for 2013-14 this allowance is £50,000.

Investments

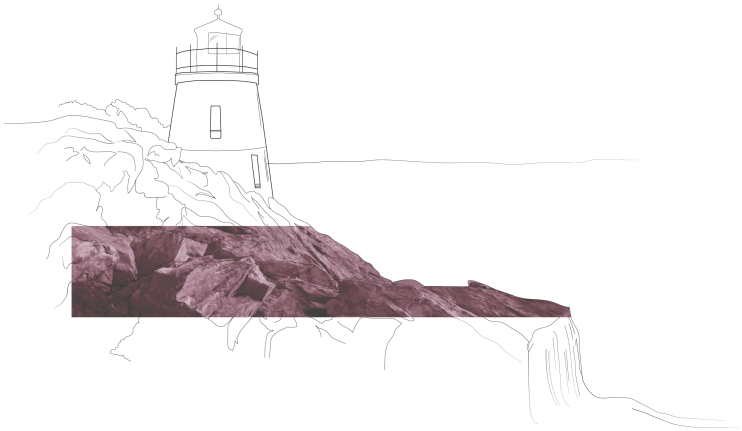
Consider making tax efficient investments such as a qualifying Enterprise investment Scheme (EIS) or Venture Capital Trust (VCT). These are higher risk investments with corresponding generous tax breaks. You should discuss such investments with your financial advisor.

Review investments

You should discuss whether it would be beneficial to switch to investments that produce growth in capital form, meaning that they are subject to capital gains tax rather than income tax (where the rates are currently lower). This advice should be sought from a financial advisor.

Child Benefit

Don't forget that if you have opted out of your child benefit payments, this could affect the credit you are given in your NIC, which build up entitlement to your state pension and other benefits, by receiving the benefit a credit is given. A child benefit claim form (CH2) should be completed if you have 'opted-out', as the entitlement, rather than the payment will ensure that the credit in your NIC continues. Please see our website post on 10 April 2013 for some further information.



Income tax planning for owner-managed businesses

Partnerships / sole traders
Partners might consider transferring their business to a company, with partners becoming directors and/or employees. Currently the main corporation tax rate is 23%. From 1 April 2014, the main corporation tax rate will be reduced to 21%. Detailed professional advice is always required here.

Capital expenditure
Full tax relief is available on capital expenditure that qualifies for the Annual Investment Allowance (AIA). This allowance is currently £250,000. Businesses planning to make capital investments should seek advice to ensure they obtain the maximum tax relief available. Please see our website post on 14 February 2013 for further information.

Accounting dates
If you are a sole trader or partnership, changing your accounting period might be beneficial. An early accounting date benefits the cash flow for a growing business as the period between earning the profit and paying the tax is increased. However, some businesses may benefit bringing lower profits into charge earlier. This should be considered carefully, as businesses are not permitted to change their accounting period more than once every five years, under normal circumstances.

Capital Gains Tax (CGT) planning for individuals

Annual Exemption

Disposals of chargeable assets should be planned to make sure that your CGT Annual Exemption Allowance is used, £10,900 for 2013-14. If you are expecting to make a substantial capital gain or have already done so in the tax year, you should seek professional advice.

Transferring assets

Assets with an inherent gain could be transferred to a spouse or civil partner to make use of their Annual Exemption Allowance and any available lower rates of tax. You could also consider making gifts of assets whilst asset values may be relatively low.

Bed and breakfasting

The sale and repurchase of shares is no longer tax effective. However, selling shares and repurchasing these through a spouse/civil partner (so called bed and spousing), ISA or family trust means you can make full use of your annual exemption or capital losses.

Principal Private Residence ("PPR")

If you own more than one property, make sure you have made the appropriate election with HMRC for CGT purposes, remember that PPR is not territorial and can apply to foreign homes.

Homes no longer your main residence

When you sell a home that has been your main residence at some point, PPR relief is currently available for the previous 36 months after you move out of the property. However, this relief is to be reduced to 18 months for disposals after 6 April 2014. if an affected sale is imminent, timing may be important and professional advice should be sought.

Crystallising losses

Where you have gains above your Annual Exemption Allowance, you should consider whether it would be beneficial to crystallise your losses, in order to offset them against any gains.

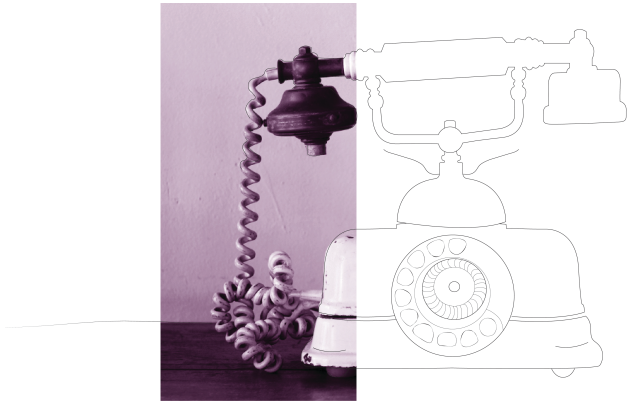
Capital Gains Tax (CGT) owner-managed businesses

Realising losses - share loss relief

Realised losses on shares you hold in a qualifying company can be offset against income tax liabilities, dependant on the circumstances. Professional advice is required here as share loss claims are very valuable.

Entrepreneurs relief ("ER")

Entrepreneurs relief can be claimed by individuals and trustees on the gain that arises on the disposal of a qualifying business, shares in personal companies and business assets. ER reduces the effective rate of CGT down to 10% for the first £10 million of capital gains, providing the qualifying conditions are met. You should review your position regularly as part of your general financial planning and make sure both spouses are maximising their lifetime limits and have not fallen foul of qualifying criteria. Professional advice should be sought in advance of planned disposals to ensure the relief is available.



Inheritance Tax (IHT) general planning for individuals

Wills
Is your current will up to date? Does it do what you want and is it tax efficient? If not you need to take legal and tax advice.

Annual Exemptions
Every individual has an annual exemption of £3,000, for Inheritance Tax ("IHT") purposes. This allowance can be carried forward one year if it has not been utilised. Consider making use of the available 'gift reliefs' such as gifts on marriage, £5,000 by each parent, £2,500 by grandparents and great grandparents and £1,000 by anyone else. Or smaller gifts of up to £250 can be made to as many individuals as you wish within the tax year. Establishing a regular pattern for gifts in accordance with 'normal expenditure out of income' will ensure they are exempt from IHT without any 7 year wait, advice is required to implement this planning.

Business Property Relief
Consider giving away assets that qualify for Business Property Relief ('BPR") or Agricultural Property Relief ("APR"). Direct gifts or using Trusts could also be considered, Having a tax efficient Will may enable you to 'double up' on BPR/APR, specialist advice will be needed.

Pre-owned assets
If you have use of a property or chattel that does not belong to you, but you previously owned or provided the funds, directly or indirectly to purchase this, you must be careful of the pre-owned asset rules that impose an income tax charge. Professional advice should be taken.

Good housekeeping
Have you completed a dying tidily log? Intrigued...it sets out clearly, for your loved ones, where everything financial can be found. Visit our website for a pro-forma.

Inheritance Tax (IHT) general planning for individuals

Charity and wills

If your estate is worth over £325,000, Inheritance Tax may be due when you die. If you leave 10% of your estate to charity, a reduced rate of 36% instead of 40% Inheritance Tax will be due. If this planning has not been taken, or your charitable donation does not pass the 10% rule, an 'Instrument of Variation' can be arranged. This will allow beneficiaries of your estate to make or increase your donation so that you qualify for the reduced rate of Inheritance Tax.

Sharing second homes with a family member

With effect from 18 March 1986, charges to tax have been imposed on property that has been disposed of subject to a reservation in favour of the donor(s). The rules apply where an individual disposes of a property and the possession of the property is not assumed by the donee outright to the exclusion of the donor. There are, however, exemptions to this rule, where a property is owned more widely, for example a holiday home, you may be able to gift part of the property but retain an interest in the remainder and use it without incurring a tax charge. For the exemption from gifts with reservation of benefit to apply, both the donor and the donee must occupy the land. There are further points which must be adhered to and professional advice should be taken to implement this.

Pensions general planning for individuals

Contribution
Anyone can automatically get tax relief at 20% on the first £3,600 you pay into a pension each year. You can make a contribution for someone else such as a spouse or children, even if they do not pay tax, basic rate relief is available on the contribution.

Annual allowance
The amount you save each year toward a pension on which you can receive tax relief is subject to an 'annual allowance'. For 2013-14 this allowance is £50,000. To access any unused relief from earlier years, you must first make the maximum payment for the current year; you are then deemed to use the earliest year first. Any unused relief for 2010/11 will be lost on 6 April 2014.

Writing death benefits in trust
Death in Service benefits are not subject to Inheritance Tax (IHT) when they arise on the death of an employee. They become taxable in the hands of the recipient, often pushing the recipient over the IHT Nil Rate Band threshold which is currently £325,000. Death in Service Trust's keep the cash out of the widows estate, overcoming the possibility of paying 40% tax on the inheritance. Every 10 years, funds in the trust over £325,000 will be subject to a charge, but even this can be overcome. Professional advice should be taken on this matter.

State pension
In order to receive a full basic State Pension, you need 30 qualifying years of National Insurance Contribution's (NICs). You can make voluntary NICs in order to fill any 'gaps'. To see whether voluntary contributions may be beneficial, you can request a state pension forecast on-line using the following link: https://secure.thepensionservice.gov.uk/statepensionforecast/

Pensions planning for owner-managed businesses

Auto-enrolment

The Pensions Acts 2008 and 2011 require employers to auto-enrol eligible jobholders, not already participating in a workplace pension scheme, into a qualifying pension scheme and to make minimum contributions to the scheme on the jobholders' behalf.

The first staging date for the enrolment was 1 October 2012, which applied to employers with 120,000 or more people in their PAYE scheme. The second stage was for employers with 250 or more people in their PAYE scheme, which ran from October 2012 to February 2014. The next stage will be from 1 April 2014 to 1 April 2015 for employers with between 50 and 249 people in their PAYE scheme. All other employers will be required to run an auto-enrolment scheme from June 2015 and 1 April 2017.

Offshore matters Remittance Basis for non-domiciliaries

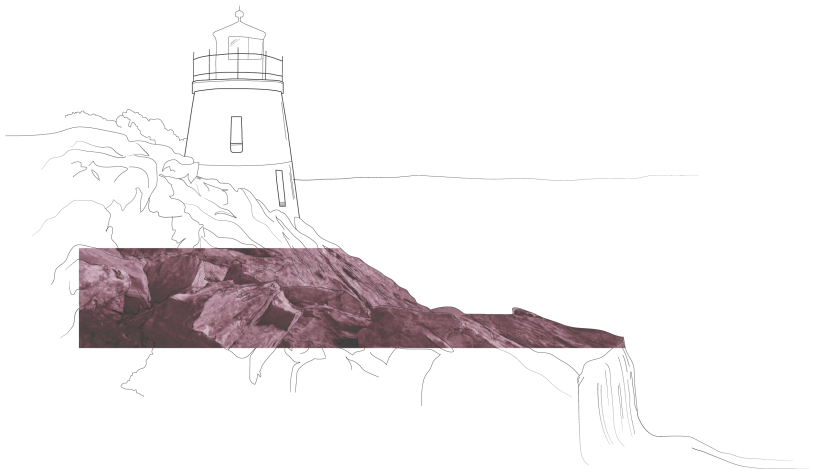
Remittance basis charge ("RBC")
You should consider whether it would be beneficial to claim the remittance basis for 2013/14 and pay the £30,000 or increased £50,000 remittance basis charge.

Nominated accounts
Review your overseas bank accounts to decide which one will be your nominated account. In order to qualify, the account must have received at least £1 during the tax year.

Statutory Residence Test (SRT)

SRT
From 6th April 2013, an automatic test to decide the residence of individuals was put into place ("SRT"). The SRT comprises automatic tests for residence and non-residence and connection factors and day counting tests for individuals who do not fall under automatic residence or non-residence. The SRT also provides anti-avoidance rules for people leaving the UK for less than 5 years and those that are present in the UK during a large number of days but are not in the UK at midnight. See our website post for more information on the SRT, posted 25 February 2013.

Specialty debts
HMRC announced last year that they have changed their view about the location of specialty debts. The view now being taken by HMRC means that the ten year charged could be levied on the value of specialty debts made to UK beneficiaries, as these loans would not considered excluded property. This charge is currently 6% of the total trust UK asset value, over the nil rate band, which is currently £325,000. If a Trust's ten year charge is approaching, professional advice should be taken. Please see our website post of 4 March 2013 for some further information on specialty debts.



Summary of key tax advantaged investments

Main conditions for tax reliefs	ISA	EIS - Full reliefs	EIS Deferral only	VCT	SEIS
Individuals can invest	Yes	Yes	Yes	Yes	Yes
Income tax credit - % of cost	N/A	30%	N/A	30%	50%
Share subscription limit per tax year	£11,520 or £3,720 for under 18s	£1m	Unlimited	£200,000	£100,000
Cash deposit limit per tax year	£5,670 or £3,720 for under 18s	N/A	N/A	N/A	N/A
Tax free increase in value of shares	Yes	Yes	No	Yes	Yes
Dividends free of income tax	Yes	No	No	Yes	No
Time limit for carry back of CGT deferral relief to previous disposals	N/A	Shares issued up to 12 months before and 3 years after the	Shares issued up to 12 months before and 3 years after the	N/A	1 year
Minimum qualifying period for income tax and CGT deferral/exemption	N/A	3 years	3 years	5 years	3 years
Loss relief on investment	No	Yes	Yes	No	Yes
IHT business property relief on shares after 2 years ownership	Depends on investments (*)	Yes	Yes	No	Yes
Direct or indirect provision of finance	Direct	Direct	Direct	Indirect	Direct
Gross asset limits for investment company	N/A	£15m-£16m	£15m-£16m	£15m-£16m	£200,000
Maximum number of employees in investment company	N/A	<250	<250	<250	<25
Investor's maximum holding	N/A	30% of qualifying company	100% of qualifying company	Small % of VCT	30% of qualifying company
Limit on money received by enterprise/ company	N/A	£5m pa	£5m pa	£5m pa	£150,000

(*) It is possible to invest in companies listed on the alternative investment market (AIM) through an ISA. Shares in may AIM listed companies meet the qualifying tests for IHT business property relief when held for at least two years.