Minimising your personal tax liability

This 2011/12 guide is intended to help you and your financial and tax planning.

“We contend that for a nation to try to tax itself into prosperity is like a man standing in a bucket and trying to lift himself up by the handle.”

Winston Churchill

No one wishes to pay more tax than is necessary and good tax planning is an essential component in personal financial planning. Every individual’s situation is different, and tax rates, allowances and tax legislation change every year. With income tax rates from 20 to 50 per cent the Government is expecting its revenues from income tax to increase by more than 4 per cent. Without personal tax planning, you may pay more than is necessary. Here are some of the key personal tax issues to consider.

With increases in the rates of tax and reducing tax relief on pension contributions, we can help you plan.

MINIMISING YOUR PERSONAL TAX LIABILITY

Let’s start by looking at some of the worthwhile strategies you could apply within the family.

Each member of your family is taxed as an individual - entitled to his or her own allowances and exemptions.

Abel & Co Chartered Certified Accountants | 020 8591 6890
enquiries@abelco.co.uk | www.abelco.co.uk
229 Westrow Drive Barking Essex IG11 9BS

For 2011/12

Income	Earnings, etc	Savings	UK Dividends
First £7,475	Tax-free	Tax-free	10%
Next £2,560	20%	10%/20%*	10%
Next £32,440	20%	20%	10%
Next £115,000	40%	40%	32.50%
Excess	50%	50%	42.50%

* The first £2,560 of savings income is taxed at 10% provided taxable non-savings income does not exceed £2,560.

Allowances and rate bands are allocated first to your earned income (which includes pensions), then to your savings income, then to any UK dividend income. If your non-savings income exceeds £2,560, the savings rate of 10% does not apply.

Many individuals fail to optimise their tax allowances. If you have a partner, spouse or child who pays a lower rate of tax than you do then consider allowing them to hold some or all of the savings in their name. It is worth noting that while any interest in excess of £100 on money given to children by parents will be treated as the parents’ income, interest on money from grandparents may be set against the child’s personal allowance. Similarly, higher-rate or additional-tax paying landlords could transfer rented property or a proportion thereof into the spouse’s name, which may also produce a capital gains tax benefit.

INVESTMENTS

There are a number of tax-free vehicles in which investments can be easily made, including ISAs (the 2011/12 allowance is £10,680 for all adults) and some National Savings products. Tax-advantageous investment vehicles include the Self Invested Personal Pension, which grants a large degree of investor choice at the expense of accessibility. Two other forms of investment, the Enterprise Investment Scheme and the Venture Capital Trust, offer substantial tax relief for those who are happy to invest with a higher element of risk.

For a full review of your available options and how they might affect your tax liability, please contact us.

DIVIDENDS AND EQUITY

Dividends from most companies including foreign dividends attract a non repayable tax credit equal to one ninth of the dividend. If you are planning to sell shares it may be possible to make a partial sale straddling the tax year, thereby utilising CGT annual allowances each year, provided these allowance have not otherwise been used. If you make losses on your shares, it is also possible to carry this loss forward to offset against future capital gains.

RENTAL PROPERTY

Rental property loan interest is an allowable deduction from rental income. Landlords may also claim an annual 10% wear and tear allowance if the property is fully furnished. If you are letting a holiday property in the UK or elsewhere in the EEA, or thinking of doing so, and meet certain qualifying conditions, you can claim capital allowances rather than the 10%. However, the present tax advantages for furnished holiday lettings are being restricted from 6 April 2012. We can advise you of these changes and their implications for you.

You can realise a tax advantage if you make a loss on your earnings from the property by offsetting it against other income charged to tax. If your rental income relates to letting out a room in your property, you are entitled to receive £4,250 per year tax free.

CAPITAL GAINS TAX (CGT)

If you are selling or planning to sell a property this year, CGT can still be an issue even if the property is your own home. While your main residence is normally exempt from CGT, several qualifying conditions have to be met. For example, very large grounds (more than half a hectare) can be an issue. If you are divesting yourself from multiple properties it is still possible to minimise CGT. There may be a planning opportunity regarding which property you class as your main residence when you have more than one home, but this is a complex area and depends on the facts of your ownership and occupation of the properties. We are able to provide specific advice relevant to your situation.

A LIFETIME OF PERSONAL FINANCIAL PLANNING

Throughout life, from childhood to retirement, circumstances and priorities change. At every stage it is important to make well-informed decisions to ensure that you and your family are following the best strategies for achieving your goals.

CHILDHOOD

It is never too early to begin planning for a child's financial future. Parents, grandparents, and other relatives can assist in the early years by providing funds for the child's education and future. This may be through direct gifts, or by making payments into a junior ISA.

THE TEENAGE YEARS

The teenage years are an important time to learn the ins and outs of budgeting, and financial planning as children begin to earn money for the first time, save to buy things such as sports or hi-fi equipment, learn the disciplines of managing student loan funds and so on.

YOUNG ADULTHOOD

This is usually the time to make provision for the purchase of a car, and to plan for the purchase of a home. It is also the time to start planning for retirement, even though retirement is a long way off and the initial investment may be modest. A small sum put away now for retirement has much longer to grow.

Q: How much should be invested?

A: It is important to seek advice, but 5% to 10% of gross income is normally considered a minimum.

SETTLING DOWN

You will be buying your first home. You need to save for the deposit and furnishings, and you will need to budget for the mortgage repayments and other household expenses (e.g. insurance, council tax, repairs and utility bills) that are an inevitable part of home ownership.

NEW PARENTS

The imminent arrival of your first child, with the extra responsibilities and perhaps the need for more space, should trigger a re-evaluation of your personal financial strategies.

MIDDLE AGE

As the children approach higher education you will need to ensure you can meet your share of the costs. Although the maturation of savings plans which began when the children were born can help at this time. You might also need to consider making extra provision as many students now leave higher education with debts in excess of £25,000, and within a few years this sum may be in excess of £40,000. Do you wish to assist your children in this area? Are you able to?

By now you may well have reached your earnings peak, and as the children leave home and begin work you should review your strategies to ensure a comfortable retirement. What are your realistic objectives? You might, for example, want to consider moving to a smaller house, acquiring a second home, or increasing your retirement funding.

NEARING RETIREMENT

If retirement beckons in your planning in the next five years you will need carefully to consider and evaluate your income requirement and the extent to which your investments can deliver the return you require. You may wish to help your children, and you may have to pay for a wedding. Investments, property and annuity rates are probably all lower than what you might have expected before the recent economic crisis.

As you approach retirement, you need to check at least once a year to satisfy yourself that your accumulated capital is at less risk and to ensure that your income in retirement will meet your needs - and provide a little extra for the realisation of some of those long planned dreams.

IN RETIREMENT

After 40 or more years at work it is time to take a well-earned rest, but you still need to keep one eye on financial planning if you want to enjoy a long and comfortable retirement. This may also be the time to begin putting some money aside for your children or grandchildren.

However, balanced against these desires may be the need to finance long term care for one or both spouses, and the potential impact of this on your financial security.

CHARITABLE DONATIONS

Throughout your life you may wish to give money to charity. There are a number of ways in which it is possible to gift cash or assets to charity tax-efficiently. For example, under Gift Aid you can give a charity £100 at a net cost to yourself of as little as £50. Charitable donations can also be included in your will, and again they will attract tax relief.

Here's where we can advise:

- Understanding your tax allowances and rates
- Making the most of tax free opportunities
- Keeping tax rates as low as possible across the family
- Using savings, capital and the Child Trust Fund to give your children a better start in life
- Making a Will
- Making a living will and giving someone you trust an enduring power of attorney over your affairs
- Insuring your life and obtaining disability and critical illness insurance
- Saving for income and investing for capital growth

For advice, do please contact us.