

Top Tax Planning Tips 2011



©iStockphoto.com/3alex

Personal and family tax planning

- 1 Take advantage of the increased Individual Savings Account (ISA) investment limits and generate tax-free income and capital gains.** The maximum annual amount that can be invested in an ISA will increase on 6 April 2011 from £10,200 to £10,680. Half of the maximum can be in a cash ISA with the remainder invested in a stocks and shares ISA. As there are many ISAs on the market, it is worth shopping around to find the best deal, taking account of the rates of return and fees charged.
- 2 Contribute up to £1,200 each year into your child's tax-free Child Trust Fund savings account.** The fund builds up free of tax on investment income and capital gains until the child reaches 18, when the child can withdraw the funds or roll them into a tax-free ISA. Although children born after December 2010 will not be eligible for a Child Trust Fund, accounts set up for children who were eligible will continue to benefit from tax-free investment growth. The child, friends and family will continue to be able to contribute up to an overall total of £1,200 a year, and it will still be possible to change the type of account and/or move it to another provider.
- 3 Check your PAYE code.** Up to a quarter of all PAYE codes are incorrect when first issued. HMRC may have included an estimate of your unearned or other income for the year, which means you will pay tax on that income far earlier than you would otherwise through your self-assessment tax return. You can ask HMRC to remove this estimated income and correct any other errors.
- 4 Review your pension contributions.** From 6 April 2011, income tax relief on your pension contributions will be restricted to contributions you and your employer make within your annual allowance (AA) cap. This cap is set at £50,000, but can be extended by unused relief from the previous three tax years. You will receive full tax relief at your highest marginal rate of tax on your pension contributions covered by the AA cap. Any pension contributions made by you or your employer that exceed the AA cap will be subject to an AA tax charge.
- 5 Use pension and gift aid contributions to minimise the capital gains tax (CGT) you pay.** Any capital gains you make after 22 June 2010 are added on to your taxable income to determine the rate of CGT due. Where the total exceeds your basic rate band of £34,700 (for 2010/11) the CGT is payable at 28%. If the total is within your basic rate band, CGT is charged at 18%. You can expand your basic rate band, and limit the CGT due to 18%, by paying pension contributions or making gift aid donations before 6 April 2011. Please take expert advice before paying large pension contributions, as in rare circumstances this can trigger additional tax charges.
- 6 Invest in assets that produce gains subject to CGT at no more than 28% rather than income taxed at up to 50%.** You can make gains of £10,100 in 2010/11 before you have to pay any CGT. Review your investments to see what proportion could be held in assets that come under the CGT regime – e.g. shares, unit trusts, and investment trusts. But bear in mind the extra risk that might be involved in capital growth-based investments. The value of share-based investments can go down as well as up, and past performance is not a reliable indicator of future performance.

Business and property tax planning

- 7 Incorporation can still be worthwhile.** Rates of corporation tax will be cut from 1 April 2011. This means a business with profits of around £50,000 can still save tax and national insurance of some £4,200 by trading through a company, if you take most of your earnings as dividends, compared with operating as a sole trader. This saving must be balanced against the additional administration and compliance costs resulting from operating as a company.
- 8 Take advantage of the current Annual Investment Allowance (AIA).** Any business, regardless of size, can currently claim the 100% AIA on the first £100,000 spent on plant or machinery (subject to certain exclusions). However, this allowance is to fall to £25,000 from April 2012. Any additional expenditure qualifies for a writing down allowance (WDA) of 20% or 10%. These rates are set to fall to 18% and 8% from April 2012.
- 9 Claim a tax rebate for any losses you make.** Special provisions allow the initial losses you make trading as a sole-trader or partnership to be set against your taxable income made in the three years before you started the business. However, you must take an active part in the business to use the losses: fewer than 10 hours of involvement per week is viewed as 'inactive'.
- 10 Choose the right company car and reduce your tax.** You can set the full cost of buying a new company car against your profits, if you choose one from with a CO₂ emissions rating of 110 g/km or less. And as the driver, you will also benefit from a lower income tax charge. If you chose an electric car or van the driver has no income tax to pay until 2015.
- 11 Do not forget to claim for the costs of your travel to your investment property.** HMRC will allow you mileage for journeys to carry out inspections, repairs, or any other tasks your managing agent does not perform.
- 12 Act quickly to claim full relief for losses from holiday properties.** If you run a commercial furnished holiday lettings (FHL) business, you can claim relief for losses made before 6 April 2011 against your other income. However, losses made from your FHL business after 5 April 2011 will only be set against future profits from the same FHL business. Also profits and losses from UK properties will have to be kept separate from profits or losses from properties in other EEA countries.

The periods a property must be let to qualify for the FHL tax reliefs are to be extended to 105 days (up from 70 days) from April 2012. The property must also be available for letting for 210 days (up from 140).
- 13 Be prepared to file online to avoid penalties.** From 6 April 2011 all employers have to file in-year PAYE forms online. These include all forms P46 for new employees and pensioners and the form P45, parts 1 and 3. If you fail to file PAYE forms online when required to do so, you could be charged a penalty of up to £3,000. If you operate your business through a company it will be compulsory to file your corporation tax return and accompanying accounts online using the iXBRL format, from 1 April 2011.
- 14 Remember tax reliefs and rules can be changed with little or no notice.** For example, a few years ago the provision of tax-free computer equipment to employees was stopped with only two weeks' notice. This sort of event may become more prevalent in future as the Government takes steps to manage the budget deficit. So be as flexible as possible with your tax planning, and have a back-up plan in case a scheme or tax relief is withdrawn.