A Guide to

END OF TAX YEAR PLANNING 2011/2012

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The end of the current 2011/12 tax year is 5th April. The pending tax year end provides an opportunity to ensure that your liability for the current tax year is not one penny more than necessary. With possible further tax increases on the horizon, there really is no time like the present to take a step back and look at how you are managing your personal finances and consider how you might reduce your taxes and/or improve your financial strategies.

We have provided an overview of the key areas you may wish to consider that could help you achieve a more secure future for you and your family. Acting now could pay dividends in the future.

MAKE USE OF PERSONAL ALLOWANCES

Every person in the UK is allowed to earn a certain amount of money each year without paying income tax, known as a personal allowance. This tax year, the personal allowance is £7,475, with higher allowances available to those aged 65-74 (£9,940) and age 75 and over (£10,090). If you become 65 or 75 during the year to 5 April 2012, you are entitled to the full allowance for that age group.

If you are married and one partner is not working, if appropriate, it could be beneficial to transfer savings accounts to them, so that you pay less income tax as a couple. If you don't make use of your personal allowance in any tax year, you cannot carry it forward to the next year.

USE YOUR INDIVIDUAL SAVINGS ACCOUNT (ISA) ALLOWANCE

ISAs allow you to save tax-efficient money. Within an ISA you pay no capital gains tax and no further tax on the income. You don't even need to declare ISAs on your tax return. This tax year, you can invest up to £10,680 in a Stocks and Shares ISA or, alternatively, you can invest up to £5,340 in a Cash ISA and the balance in a Stocks and Shares ISA. Any allowance not used by the 5 April deadline will be lost forever. The value of tax savings depends on your circumstances and tax rules can change over time.

TOP UP YOUR PENSION CONTRIBUTIONS

The annual allowance for the tax year 2011/12 is £50,000, inclusive of your own contribution and any other amounts paid into an approved pension scheme. Contributions paid by you to a personal pension plan or a stakeholder pension scheme are made net of 20 per cent basic rate tax. This means that for every £100 you want to save, you pay only £80. Tax relief of £20, topping your contribution up to £100, is then added by HM Revenue & Customs (HMRC).

If you are a 40 per cent higher rate tax payer, you may be able to claim additional tax relief. If you are a 50 per cent additional rate tax payer, you may also be able to claim additional tax relief at your highest rate. Depending on how much you earn over the higher rate tax band, and your level of contribution, any additional rate tax relief would range between a further 1 per cent up to a maximum of 30 per cent.

PLAN FOR INHERITANCE TAX (IHT)

Effective IHT planning could save your family hundreds of thousands of pounds. If you haven't done anything about a potential IHT bill, now is the time to take action. Currently, IHT is charged at 40 per cent on anything you leave over £325,000 when you die. With rising property prices in recent years, this has resulted in more people being subject to IHT.

You may then want to try and minimise any potential IHT bill by giving regular small gifts away. Currently, you can give away a lump sum of up to £3,000 in each tax year without paying IHT – known as your 'annual exemption' – or £6,000 this year if you haven't used last year's allowance.

You also have a 'small gifts exemption', which means that you can make small gifts of £250 each year free of IHT. There is no restriction on the number of small gifts but they must each be to separate individuals. You cannot use your annual exemption and your small gifts exemption together to give someone £3,250.

REDUCE YOUR CAPITAL GAINS TAX LIABILITY

If you have made a taxable gain from the sale of property, shares, investments, businesses or any form of capital gain, make sure you don't make unnecessary CGT payments. CGT is a tax charge that arises from the disposal of assets, such as shares or buy-to-let properties, charged at 18 per cent for lower and 28 per cent for higher rate tax payers. Every individual has an annual capital gains tax-free allowance, which currently stands at £10,600 for the 2011/12 tax year.

The limit applies to each individual, so if you are married or in a registered civil partnership you each have an annual exemption and should ensure that each of you maximises your CGT-free gains.

There are different ways to reduce CGT bills, for example, equalisation or joint ownership of investments will transfer income to the lower-taxed one. This can be done CGT-free for married couples and registered civil partnerships. By transferring an asset into joint names, you could both make use of your tax-free allowance so that up to £21,200 of any gain can be tax-free in the current tax year. But the transfer to your spouse or partner must be a genuine outright gift, so this might not be a suitable strategy for everyone.

It may also be appropriate for some unmarried couples to equalise non-CGT assets such as bank accounts, which could mean that it becomes possible to equalise or transfer assets on which gains are less than their annual CGT exemption. Even if an asset is only put into joint ownership the day before it produces income – for example, through interest or a dividend – that income will still be split equally between both owners.

If you immediately sell employee shares that you get through a Save-As-You-Earn share option scheme, company share option scheme or enterprise management incentive scheme, you may have a CGT bill. Consider selling in several tranches, so that each year's gain is within your annual tax-free allowance. ■

THERE ARE VARIOUS ALLOWANCES AND RELIEFS AVAILABLE THAT CAN HELP MINIMISE TAX LIABILITIES ARISING ON EARNINGS, PROFITS OF TRADE OR GAINS WHEN YOU SELL CHARGEABLE ASSETS, BUT UNDERSTANDING WHAT THEY ARE AND WHICH ONES YOU ARE ENTITLED TO CAN BE A DAUNTING TASK. WHATEVER YOUR TAX PLANNING NEEDS, WE WILL ENDEAVOUR TO FIND A TAX SAVING SCHEME TO SUIT YOUR CIRCUMSTANCES. PLEASE CONTACT US TO DISCUSS YOUR SPECIFIC SITUATION AND REQUIREMENTS.

The value of these investments and the income from them can go down as well as up and you may not get back your original investment. Past performance is not an indication of future performance. Tax benefits may vary as a result of statutory change and their value will depend on individual circumstances. Thresholds, percentage rates and tax legislation may change in subsequent Finance Acts.

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