WATSON BUCKLE

CHARTERED ACCOUNTANTS

50 Ways to Save Tax Guide

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BUSINESS SOLUTIONS WORLDWIDE

In his budget, the Chancellor has not only brought forward tax proposals which were due to take place in 2011, he has also made changes to his original announcements.

To ensure you keep as much of what you earn as possible, we have examined the opportunities for practical tax planning that exist and created this guide covering 50 ways that you can reduce your liabilities.

For ease of use, we have split the ideas up into sections covering Income Tax, Capital Gains Tax, Inheritance Tax, Capital Allowances and Corporation Tax.

Income Tax

1. Utilise your full Personal Allowance, which is £6,475 in the tax year 2009/10.
2. Avoid the age allowance clawback bands – if you are over 65 and earning £22,900 or more, your tax allowance reduces by £1 for every extra £2 earned.
3. Income splitting between spouses enables you to maximise each individual's allowances and rate bands. Use HM Revenue & Customs Form 17 to split capital / income on an unequal basis.
4. Renting a room can give you up to £4,250 each year tax free.
5. Company dividends paid up to the higher rate tax threshold are effectively tax free, as the available tax credit cancels out the tax due.
6. Non-cash Long Service Awards are entirely exempt from tax, as long as they mark at least 20 years' service and are worth less than £50 per year of service.
7. You do not need to pay National Insurance on Childcare Vouchers (up to £55 per week).
8. Use your ISA limit of £7,200 (£3,600 cash). This will rise to £10,200 (£5,100 cash) for the over 50's from October 2009.
9. You can contribute up to 100 percent of your earnings / profits or £245,000 (annual allowance) to a pension scheme.
10. Stakeholder Pensions enable you to contribute £3,600 with no income requirement.
11. Termination Payments provide up to £30,000 tax free.
12. The Enterprise Investment Scheme can provide 20 percent tax relief on up to £500,000.
13. Venture Capital Trusts offer 30 percent tax relief on up to £200,000.
14. Gift Aid enables you to avoid the effective 60 percent tax rate created by the reduction of personal allowances on incomes of more than £100,000.

Capital Gains Tax

15. Use your annual exemption of £10,100, and transfer assets to your spouse for maximum benefit from individual allowances.
16. Gifting business assets may entitle you to Hold-Over Relief where all or part of the gain may be postponed until the asset is sold by the recipient.
17. Gifts of any assets to a Discretionary Trust are also eligible for Hold-Over Relief.
18. Under the Enterprise Investment Scheme you can claim Rollover Relief on any proceeds that are reinvested in a qualifying company, and so defer your tax liabilities.
19. Additionally any investments under the Enterprise Investment Scheme are free from Capital Gains Tax after two years' ownership.
20. A Principal Private Residence election enables you to decide which of two or more houses owned / used qualifies for Capital Gains Tax relief when sold.
21. Private Lettings Relief is available on the sale of properties which have been rented out - up to £40,000 per owner.
22. Roll-Over relief postpones the payment of tax for the sale of business assets – including Compulsory Purchase Orders and lease sales / extensions.
23. Entrepreneurs' Relief provides an effective 10 percent rate for Capital Gains Tax on certain gains up to £1million.
24. Revertor to Settlor Trusts and Principal Private Residence Relief can both prove useful in reducing tax liabilities when selling properties.
25. Emigration – after five complete tax years as a non-UK resident, you can avoid Capital Gains Tax on any assets held on the day of departure.

Inheritance Tax (IHT)

26. Using the annual gifts exemption, you can give away gifts worth up to £3,000, which will be exempt from IHT. Any unused exemption can be carried forward to the next year.
27. The annual small gifts exemption enables you to make IHT-free gifts of up to £250 to as many people as you like in any one tax year.
28. Regular annual gifts out of surplus income are IHT-free as long as you have enough income left to sustain your normal lifestyle.
29. Any outright gifts you make will be free from IHT as long as you live for seven years after making the gift.
30. Business Property Relief provides 100 percent IHT relief as long as the asset was owned for a minimum of two years before transfer – note the relief is wasted if the property is left to a spouse.
31. Agricultural Property Relief provides 100 percent IHT relief as long as the asset was owned for a minimum of two years or let for a minimum of seven years before transfer – note the relief is wasted if the property is left to a spouse.
32. Business and Agricultural Property Relief provide 50 percent IHT relief for certain assets which are not eligible for 100 percent relief. Again a minimum two year ownership period applies.
33. Do not secure loans on assets qualifying for Business and Agricultural Property Relief.
34. Gift & Discount Trust (aka. Estate Planning Bond) reduces IHT liability while providing access to a regular income. There is a maximum age limit of 90 years.
35. Loan Trusts enable IHT-free growth outside of your estate, while still providing access to the money in the future.
36. Lease carve outs for private residences or the sale of the house to your spouse and gift of loan reduce IHT.
37. Lifetime Pilot Trusts place assets into trust without the IHT charges every tenth anniversary.
38. Transferring a pension scheme overseas using QROPS can substantially reduce IHT liability for offshore-based investors.

Capital Allowances

39. The Annual Investment Allowance provides 100 percent relief on plant and machinery expenditure up to £50,000. There is also a temporary First Year Allowance of 40 percent available up to 31 March 2010.
40. "Green" Water and Electrical Equipment qualifies for 100 percent relief.
41. Cars with CO_2 emissions less than 110 grams per kilometre qualify for 100 percent relief.
42. Cars with emissions over 160 grams per kilometre qualify for an annual allowance of only 10 percent, and so should be leased instead of bought.

Corporation Tax

43. Group Relief is available for a group comprising of a holding company and each of the subsidiaries where it owns at least 75 percent of the ordinary shares.
44. Consortium Relief is available for a company owned by a consortium of companies that each own at least five percent of the shares.
45. Roll-Over election for the sale and repurchase of assets within a group.
46. Substantial Shareholding Relief removes the tax liability for gains made by trading groups disposing of their substantial shareholdings in other trading companies, subject to a minimum 10 percent shareholding.
47. Make companies dormant to avoid being associated for small companies' corporation tax rate.
48. From 1 July 2009, dividends from non tax haven resident subsidiaries are tax free.
49. The Employer Funded Unapproved Retirement Benefit scheme is financed out of company taxed profits.
50. Employee Benefit Trusts can be onshore or offshore and provide Corporation, Income and Inheritance Tax - as well as National Insurance - savings.