



## Basic tax planning

Almost without exception, once the end of a tax year passes 99% of your options to reduce your tax liability for that year are lost.

Consequently, if you are concerned to keep your tax payments to the absolute minimum required by legislation, you will need to take advice before the end of the tax year.

### Why tax planning is adviseable

HMRC will be quick to tell you if they feel that you have underpaid tax or National Insurance. They will be less forthcoming if you fail to organise your affairs in such a way that your tax footprint is minimised.

In fact, there are many instances where the HMRC's website suggests that taxpayers take professional advice if they are unsure what allowances or reliefs they can claim.

Unless you have a clear understanding of the UK tax code adopting a DIY approach to tax planning is fraught with danger. And HMRC are unforgiving. For example, it is possible to claim that you have a reasonable excuse for non-compliance with HMRC's filing or payment deadlines, but this will not include ignorance of the relevant legislation.

### What will tax planning involve and who will benefit

Based on the above categories tax planning would likely cover:

#### Business owners

- Review of current year's management accounts
- Estimating business tax liabilities based on actual performance
- Timing of qualifying capital expenditure to maximise tax relief
- Review of pension contributions
- Review of VAT scheme options

#### Property owners

- Planning reductions in lending (mortgages) to counter loss of higher rate Income Tax relief on loan/mortgage interest
- Estimating future Capital Gains Tax liabilities
- Examining possible elections to vary the share of rental profits if jointly held property is owned by married couples or civil partners
- Minimising loss of tax relief on refurbishments and replacing furniture and fittings

#### Owners of assets subject to Capital Gains Tax when sold

- Keeping an up-to-date record of acquisition (and for property, improvement costs)
- Estimating future gains and tax liabilities based on current market value of chargeable assets
- Discussing possible reliefs that could be considered to reduce "pregnant gains" and liabilities
- Planning for future disposals

#### Inheritance Tax (IHT) planning

- Updating a schedule of personal assets held with current market values added
- Estimating and identifying current IHT risk
- Recording any significant gifts recently made and their impact on IHT risk
- Planning future gifts in a tax efficient manner
- Examining current – and possible new – IHT planning opportunities based on current legislation

#### Higher rate Income Tax payers

- Reviewing current and expected levels of income and allowances
- Reviewing options to extend pension contributions
- Deferring income to future tax years
- Utilising unused tax reliefs from previous years including business trading losses of the self-employed
- Estimating reductions in Income Tax liability by adapting planning options

#### Taxpayers with income approaching or exceeding £100,000

- Reviewing strategies to keep taxable income below £100,000
- Minimising loss of personal tax allowances and thus avoiding a marginal tax rate of 60%

#### Director/shareholders of limited companies

- Reviewing dividend policy
- Setting appropriate salary levels
- Reconsidering benefit-in-kind options
- Reviewing possible liabilities to Corporation Tax and Income Tax if directors running overdrawn loan accounts
- Considering charging interest if director's loans are in credit (monies lent to the company)





## Why one size to fit all does not work

Even the most straight forward of tax circumstances – as listed above – may contain multiple features that will make that person's tax position unique. Therefore, it is not possible to design a tax planning approach that would benefit all taxpayers. In tax planning parlance, what may be good news for the goose may be exceedingly bad news for the gander.

## How can you plan to save tax?

There are three basic ways that you can plan to save tax and stay the right side of the law.

- You can avoid paying late filing penalties, late payment fines and interest by meeting the various filing deadlines with HMRC – tax returns, payroll returns, VAT returns etc. – and paying taxes as they fall due. And if you do have issues meeting these obligations, there are possible strategies for mitigating these costs.
- You can ensure you utilise allowances and reliefs that are available, and that disappear if you don't use them by the end of the tax year.
- Finally, you can adopt various strategies that will reduce your liability to taxes in a particular tax year. For example, you may be able to carry back charitable contributions to a previous tax year when you were a higher tax taxpayer, as in the current year you are only a basic rate taxpayer.

In all cases, early attention to these considerations is paramount.

## Planning your options to save tax before the tax year end

We are closing this fact sheet by underlining the comments made in the opening remarks: it is essential to undertake tax planning before the end of the current tax year. With the exception of charitable donations, that can be carried back in certain circumstances, almost all other options to save tax have to be enacted before the 5 April each year.

Please call to discuss your options. The clock is ticking.

### Summary action list

- Book a formal tax planning session with your professional adviser
- Make sure you time your planning well before the end of each tax year (before the following 5 April)
- Identify the benefits
- Work out what needs to be done to minimise your liabilities
- Give instructions for the work to be done

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