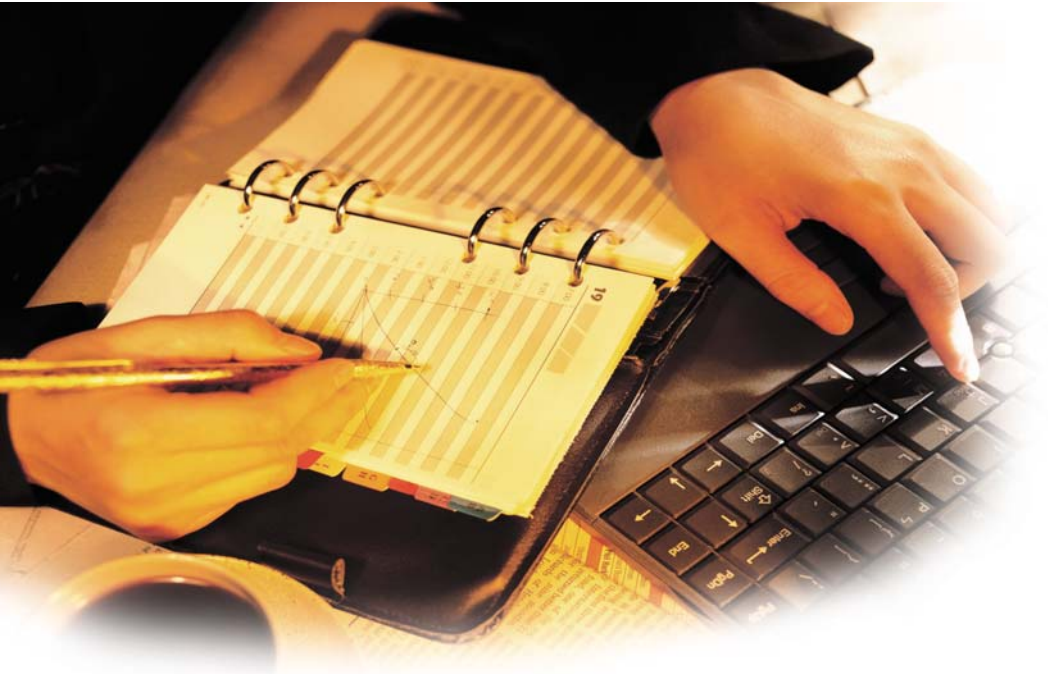


# TAX STRATEGIES

Tax & Financial Strategies

2004/05



## Tax & Financial Strategies 2004/05

This guide is designed to help you with your tax and financial planning. Arranged in easy to use sections, it covers the main areas where taxation has an impact: on you, your family and your work. The information in this guide is based on our understanding of current legislation, and incorporates the changes announced in the 2004 Spring Budget including changes to the taxation of dividends.

Be sure to take full advantage of any tax benefits currently available to you, while keeping an eye open to the implications of possible future changes in tax law.

We are sure you will find this guide both interesting and helpful, but it is not intended as a substitute for professional advice. The most effective way to use it is to identify those areas that could have an impact on you and then arrange to discuss them with us.

With a complicated and changing tax system, backed by an increasing emphasis on anti-avoidance legislation, penalties, surcharges, and interest, it would be unwise to try to take advantage of tax breaks without a clear understanding of the current rules and of forthcoming changes. We have that understanding, and can help you to implement the appropriate tax saving strategies for you and your business.

A list of resolutions you might make and act on over the next six months is included in Section 9.

From these draw up your personal list of four or five resolutions, and then call us to discuss how you can put your plans into action.

*Please call us with any questions you have about the strategies presented here or about how they can help you to minimise your tax liabilities while maximising your personal wealth. We would welcome the opportunity to discuss your situation and show how we can help you.*

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## Focus on your family

Tax and financial planning does not tend to be the activity of choice for most individuals. If each of us had our way, the various pieces of our financial lives would fall magically into place. Unfortunately, life doesn't work that way. Making sense of your finances requires more time and effort than ever in today's constantly changing economic environment.

Let's start by looking at you and your family, as we consider some strategies you may find worthwhile.

### BASIC PRINCIPLES

Each member of your family is taxed as an individual – entitled to his or her own allowances and exemptions. For 2004/05:

the first £4,745 of income is tax free
the next £2,020 is taxed at 10%
the next £29,380 is taxed at: 22% for most income, but 20% for savings income, and 10% for UK dividend income
the remainder is taxed at 40% (32.5% for UK dividend income)
the first £8,200 of capital gains are tax free
the remainder is taxed at the rates appropriate to savings income – i.e. 10%, 20% and/or 40%

Allowances and rates bands are allocated first to your earned income (which includes pensions), then to your savings income, then to any UK dividend income, and finally to any capital gains.

Thus, a single person with a gross income of £40,000 (made up of £25,000 earnings, £5,000 of interest and grossed-up UK dividends of £10,000) and capital gains of £10,000 (assuming no other reliefs, etc) would have a tax liability of £7,801.07 as shown below.

	EARNINGS £	INTEREST £	UK DIVIDENDS £	GAINS £
Income	25,000	5,000	10,000	10,000
Personal allowance	- 4,745			
CGT exemption				- 8,200
Taxable	20,255	5,000	10,000	1,800
Tax at:				
10% on	2,020			
22% on	18,235			
20% on		5,000		
10% on			6,145	
32.5% on			3,855	
40% on				1,800
<b>TOTAL TAX LIABILITY: £7,801.07</b>	<b>£4,213.70</b>	<b>£1,000.00</b>	<b>£1,867.37</b>	<b>£720.00</b>

### HIGHER ALLOWANCES FOR THE ELDERLY

The personal allowance for those aged 65 to 74 at 5 April 2005 is £6,830, and for those aged 75 or over it increases to £6,950.

Both figures are scaled back if income exceeds £18,900, but in any event the minimum allowance is £4,745.

The married couple's allowance is worth £572.50 for those couples where at least one spouse is aged 70 to 74 at 5 April 2005, or £579.50 if one or both spouses are aged 75 or over.

The allowance may be scaled back if the husband's income exceeds £18,900, subject to a minimum of £221.

### BASIC TAX PLANNING FOR THE FAMILY

With careful planning, a couple with two children could have income and gains of at least £51,780 tax free, and up to £177,380 before paying any higher rate tax.

The golden rules are:

- make the most of tax free opportunities
- keep marginal tax rates as low as possible
- maintain a spread between income and capital.

### MOVING CAPITAL

Planning is often hindered by the potential for tax charges to arise when assets are moved between family members. Most gifts are potentially taxable as if they were disposals at market value, with a resulting exposure to capital gains tax (CGT) and inheritance tax (IHT).

However, there is normally no tax charge on transfers of assets between spouses living together\*, or between separated spouses in the tax year in which separation occurs. It is possible for married couples to reduce their overall marginal tax rates by transferring:

- income-producing assets to the spouse with the lower income
- income-producing assets (other than shares in close companies) into joint names and taking advantage of the special rules for joint investments which split the income 50/50 for tax
- assets to the spouse to take advantage of an additional CGT exemption or lower tax rates on a proposed sale
- capital to the spouse to enable the spouse to make gifts and, again, take advantage of additional exemptions, etc.

Gifts must be outright to be effective for tax, and must not comprise a right only to income.

\* *Transfers on or within seven years of death to a spouse domiciled outside the UK are exempt only to the extent of £55,000.*

## TRANSFERS TO CHILDREN

Although your children are taxed as individuals, remember that where income from capital gifted by a parent to a child exceeds £100 per annum, the income is taxed as if it were the income of the parent unless the child is either over 17, or married. However, using investments that generate tax free income, or that accumulate income, can avoid this problem. Parental gifts to 16-17 year olds can be invested in cash-only ISAs, subject to limits, where income will be tax free.

## CHILD TRUST FUND

The Child Trust Fund will provide an initial endowment of £250 (£500 for children of low-income families qualifying for full Child Tax Credit) for children born on or after 1 September 2002. More details will be announced before accounts are available in 2005, but the aim is to create an account into which the initial endowment (plus additions from parents, grandparents and other relatives and friends of up to £1,000 each year) can be invested until the child reaches the age of 18.

The child will be able to access the accumulated fund at age 18, with no restrictions as to use.

## GENERATION SKIPPING

Income from capital gifted by grandparents or more remote relatives will be taxed as the child's, as will income distributions from a trust funded by such capital.

## MARRIAGE BREAKDOWN

Tax relief worth up to £221 this year is given on maintenance paid to a former spouse under orders or enforceable agreements, so long as at least one of the former parties to the marriage was born before 6 April 1935. Otherwise, maintenance payments do not qualify for tax relief. Maintenance payments received under orders or agreements are not taxable.

The special CGT/IHT treatment for transfers between spouses applies throughout the tax year in which separation occurs. Transfers in subsequent years are dealt with under the rules for disposals between connected persons, with the disposal treated as a sale at market value until the decree absolute.

There are, therefore, arguments for and against making transfers as quickly as possible after separation, or for delaying them until after the decree absolute. Check with us if you are not sure which is the best course to take.

## FINANCIAL PROTECTION FOR YOUR FAMILY

### How would your spouse and children manage if you died or were incapacitated tomorrow?

Beyond taking the obvious step of ensuring you have adequate insurance cover, with life assurance perhaps written into trust for your spouse or children to ensure quick access to funds, you need to make a Will. We would also strongly recommend that you:

make a living Will – so you can make clear your wishes in the event that, for example, you are pronounced clinically dead following an accident, and

execute an enduring power of attorney – so that if, whether as a result of an accident or illness, you become incapable of managing your affairs, you can be reassured that responsibility will pass to someone you choose and trust.

Of course all this also applies for your spouse. Make sure that your family protection planning considers the possibility that both parents may be simultaneously killed or incapacitated.

On a practical note, tell your spouse, your parents, and your business partners where your Will and any related documents are kept – it is still up to you whether or not you tell them what the documents contain, but if you are passing responsibility for managing your affairs on to others, it would be advisable to talk matters through with them now.

## GETTING STARTED

If you are thinking of starting a business, you should consider, among other factors: the nature of the business, the profit potential, the rate at which you expect the business to grow, the impact of being the business owner on all areas of your life and the degree of risk involved.

You should prepare a business plan which should consider: the source of funds, tax efficient borrowings, whether the business needs a PAYE scheme or to be VAT registered and, not least, the business structure that will best meet your needs – sole trader/sole practitioner, partnership, limited liability partnership or limited company. We can help you through the decision making process – and with the appropriate registrations.

There are both advantages and disadvantages for each trading structure with respect to control, perception, support, and costs. There are also some things to avoid. For example, if you decide that incorporating your business is the preferred solution, try to avoid losing personal ownership of any freehold property.

It is also important to choose the right year end for your business. Is there a time of year when it will be more convenient to close off your accounting records, ready for us? What would be the best time of year for stock-taking? To what extent is your business seasonal? From a tax viewpoint, the choice of a year end early in the tax year for an unincorporated business usually means that an increase in profits is more slowly reflected in an increased tax bill. Conversely, a reduction in profits will more slowly result in a lower tax bill.

## TAX DEDUCTIBLE EXPENSES

You will pay tax on your profits, so it is essential to claim all deductible expenses as well as the costs and expenses included in your accounting records. You can claim a proportion of your heating and lighting bills and a proportion of your home telephone bills if you maintain an office at home. You can also claim for the cost of travel and accommodation when you are working away from your main place of business.

You must keep adequate business records – including a log of business journeys – because in addition to ensuring your accounts are accurate, these records may be requested by the Inland Revenue and Customs and Excise. Have you considered using a good computer package for record keeping?

Generally, it is better to incur expenditure just before, rather than just after, the end of your accounting year because you will be able to obtain tax relief earlier.

## CAPITAL ALLOWANCES

For expenditure on business equipment, the tax system allows a deduction for ‘capital allowances’ rather than depreciation.

For small and medium-sized businesses, there is a special first year allowance for expenditure on most types of plant and machinery.

The allowance you are able to claim in the first year is 40%, with further allowances in subsequent years at the rate of 25% per annum on the reducing balance. For the smaller (according to the Government’s definition) businesses the first year allowance is 50% for expenditure between 1 April 2004 and 31 March 2005 (businesses paying corporation tax) or between 6 April 2004 and 5 April 2005 (businesses subject to income tax).

A 100% allowance is available for investment in designated energy-saving plant and machinery, plant and machinery to reduce water use and improve water quality, low emissions vehicles, and for the cost to property owners of the renovation or conversion of vacant space over shops and other commercial premises if these are to be made available for rent.

Otherwise, most equipment qualifies for an allowance of 25% on a reducing balance basis, with special rules and rates for expenditure on long-life assets, and industrial and agricultural buildings.

Consult us for more details of these allowances.

## RESEARCH AND DEVELOPMENT

Tax relief is available on research and development (R&D) expenditure at varying rates. Maximum rates of relief for 2004/05 are as follows:

- for small and medium-sized companies paying tax at 19%, the maximum rate of tax relief is 28.5% (that is a tax credit on 150% of the expenditure)
- for small to medium-sized companies not yet in profit, the maximum rate of relief is 24%
- for larger companies paying tax at 30%, the maximum rate of relief is 37.5% (a credit on 125% of the expenditure)

This is subject to a minimum spend of £10,000 in an accounting period.

### TAX TIP

*Never let the tax tail wag your financial dog – concentrate on sound planning strategies and treat tax breaks as a bonus*

SMEs barred from claiming SME R&D tax credit by virtue of receiving some other form of state aid (usually a grant) for the same project will be able to claim the large company R&D tax credit. This means they will qualify for relief on 125% of their expenditure.

## INVOLVING THE FAMILY

You can employ family members in your business, but you will need to be able to justify the amount you pay. Provided the package is commercially justifiable, you can remunerate family members with a salary, and perhaps also with benefits – such as a company car (an alternative is to provide a van – until 5 April 2007, the maximum annual tax bill on the use of a company van is only £200 and £1,200 thereafter) or medical insurance – and you can make payments into an appropriate pension scheme.

See **'Focus on your job'** (Section 4) for other ideas on how we can help you to see that employing family members is tax and NI-efficient.

You can also take family members into partnership, thereby gaining more flexibility in allocation. In fact, taking your children into partnership and gradually reducing your own involvement can be a very tax efficient way of passing on the family business. Be aware, though, that taking the family into your business may put the family wealth at risk if, for example, the business were to fail.

The Inland Revenue may challenge excessive remuneration packages or profit shares for family members, so seek our advice first.

If you operate your business through a limited company, under current tax law you can pass shares on to other family members and thus gradually transfer the business with no immediate tax liability in most cases. However, a tax saving for the donor usually impacts on the donee, and you need to steer clear of the settlements legislation, so again, seek our advice first.

In the next section of this guide **'Focus on leaving your business'** we consider the ultimate sale or disposal of your business.

### TAX TIP

*We can help you plan for more tax-efficient profit extraction. Contact us today*

## TAX AND THE UNINCORPORATED BUSINESS

Business profits are charged to income tax and Class 4 national insurance contributions on what is known as the 'current year' basis of assessment. This means that the profits 'taxed' for each tax year (ending 5 April) are those earned in the business year ending in the tax year. For example, if you draw up your accounts to 31 July each year, your profits for the year ended 31 July 2004 will normally be taxed for 2004/05. There are special rules for the beginning and final years of a business, and for those joining and leaving partnerships.

Advising the Inland Revenue when you become self-employed, and probably liable to Class 2 national insurance contributions, may not be very high on your list of priorities in the first weeks and months of a new business – but failure to notify within three months of the last day of the month in which the self employment began will result in a £100 penalty.

This is one of a growing number of 'fines' for those not complying with the rules and regulations of Government departments. We will help you steer clear of them, but we need you to play your part by letting us have details for your tax returns in good time, and by telling us of changes in your business, financial and personal circumstances.

## THE 'CATCH-UP CHARGE'

In your financial accounts we need to take account of the value of incomplete work (work in progress) and unpaid bills (debtors). In doing so, your accounts reflect what you earn, and the Inland Revenue are content that the taxes they collect have not been depressed by deliberately delaying billing or collection.

The formalisation of this point took effect a few years ago, so for most businesses it might not be a current issue. However, under the 'catch-up charge' rules there is a provision for the additional tax and NICs due from those who had not previously adopted this tax accounts treatment to spread their additional catch-up liability over up to ten years.

Again, there are special rules where sole traders and sole practitioners end their businesses, and where partners join and leave partnerships.

For accounting periods ending on or after 23 December 2003 there is a requirement to recognise the full value of work which has reached the stage

### TIP

*Every business should have a written plan – 'failing to plan is like planning to fail'*

at which it could be invoiced, even if no invoice has yet been issued. This again represents a ‘catch-up’, as previously unrecognised profits are brought into tax – to an extent, this can be avoided by ensuring invoices are issued in good time – but there are no spreading provisions this time.

Please contact us for more information on your particular circumstances.

## TAX AND THE INCORPORATED BUSINESS

Forming a limited company can make sense when the limitation of liability is an important consideration – but do bear in mind that banks and other creditors often require personal guarantees from directors for company borrowings.

Trading through a limited company can be an effective way of sheltering profits. Although profits paid out in the form of salaries, bonuses, or dividends will normally be taxable at top rates, profits retained in the company will be taxed at rates from as low as 0%. Retained profits can be used to buy equipment or to provide for pensions – both of which are eligible for tax relief. This is leading more and more small businesses to consider incorporation, but there are other important implications, which we would welcome the opportunity to discuss with you, before you decide whether or not to ‘go limited’.

## KEEPING MORE OF YOUR PROFITS...

*...and saving some national insurance*

Although leaving profits in the company can be tax efficient, you need money to live on, so you should consider the best ways to extract profits from your company. A salary will meet most of your needs, but do not overlook the use of benefits in kind, which may save income tax and could also result in a lower national insurance bill.

We can help you with strategies for saving employer and/or employee NICs. Examples include:

- increasing the amount the employer contracts to contribute to company pension schemes
- share incentive plans (shares bought out of pre-tax and pre-NIC income)
- for companies, disincorporation and instead operating as a sole trader or partnership

- instead of more salary, pay a bonus to reduce employee (not director) contributions
- paying dividends instead of bonuses to owner-directors
- provision of childcare.

## ARE YOU AN OWNER-DIRECTOR?

For the moment, consider how much you might save if, as an owner-director, you wanted to extract the £10,000 profit your company makes in 2004/05 by way of a dividend rather than a bonus. Please note that we assume that you are paying higher rate tax, so your earnings exceed the so-called ‘upper limit’.

## BONUS v DIVIDEND

	BONUS £	DIVIDEND £
Profit to extract	10,000	10,000
Employers' NIC	- 1,135	
Gross bonus	8,865	
Corporation tax £8,403 @ 19%		-1,597
Dividend		8,403
Employees NIC	- 89	
Income tax @ 40%	- 3,546	
Additional tax		- 2,101
Net amount extracted	5,230	6,302

As you can see, the net amount is increased by over 20% by opting to declare a dividend.

**Be sure to discuss this with us before you act as this is a complex area of tax law.**

There are many matters to be considered when deciding whether directors should be paid by dividend or salary/bonus. In practice, a combination of each is usually the best course.

Remember that dividends are usually payable to all shareholders. Although it is possible to waive dividends, this can result in tax complications, so a better option may be to have different classes of share.

Finally, you need to consider with us the effect that regular payment of dividends will have on the valuation of shares in your company.



## EMPLOYED OR SELF-EMPLOYED?

There is no statutory definition of 'employment' or 'self-employment'. Rather, there is a series of 'tests' which the Inland Revenue will apply if they believe someone is classified incorrectly.

Because large amounts of tax and, increasingly, national insurance can be at stake, the Inland Revenue take quite an aggressive line, so advice specific to your business is essential.

The IR35 rules require businesses to consider each and every contract they enter into for the provision of services. The point is whether or not the contract is one which, had it been between the owner or partner and the customer, would have required the customer to treat the owner or partner as an employee and therefore subject to PAYE. The contract 'passes' the test if the owner/partner would have been classified as self-employed; it fails if the owner/partner would have been classified as an employee.

If the contract 'fails' the test, the business is required to account for tax and national insurance based on the income from the contract at the end of the tax year.

## PAYING THE TAX

For the self-employed, the timetable of tax payments is relatively simple:

31 January in the tax year, first payment on account

31 July after the tax year, second payment on account

31 January after the tax year, balancing payment

Payments on account are normally equal to 50% of the previous year's net liability. We can make a claim to reduce your payments on account, if appropriate, although interest will be charged if your actual liability is more than the total amount paid on account.

Payments on account will not be required where each payment works out at less than £250, or where the self assessment tax/NIC is less than 20% of the previous year's total income tax/Class 4 NIC liability (instead, the full liability is due on 31 January after the tax year).

There is also a system of interest and surcharges to encourage prompt payment.

For example, if you do not make your full 2003/04 balancing payment by 28 February 2005, the Inland Revenue will add a 5% surcharge to the interest which will be charged from 1 February. Delay until after 31 July 2005, and a further 5% surcharge will be added. And interest is charged on outstanding surcharges, as well as unpaid tax and NICs.

## BUSINESS YEAR END PLANNING

Tax and financial planning should not be left until the end of the tax or financial year, but in advance of the end of YOUR business year, why not talk to us about:

- the impact on your tax position and financial results of accelerating expenditure into the current financial year, or deferring it into the next
- additional pension contributions or reviewing your pension arrangements
- how you might take profits from your business at the smallest tax cost, and how timing of payment of dividends and bonuses can reduce or defer tax
- avoiding overvaluing stock and work in progress
- improved cash collection strategies
- improvements to your billing systems and record keeping, or a general systems review to improve profitability and cash flow
- NI efficiency or employee remuneration packages with potential cost savings for you and your employees.

## OUR EXPERIENCE IS AT YOUR DISPOSAL

We have extensive experience in working with business owners – and of course we are ourselves the owners of this business.

Our goal is to provide you with a comprehensive, value-added service that goes beyond dealing with your financial statements and preparing your returns.

You might be particularly interested in:

- improving your business profitability
- strategies for minimising your business tax burden
- protecting your business from financial disaster
- raising finance
- selling your business (and preparing your business for a sale)
- business exit, succession and retirement planning.

Which two or more areas are the most important to you – or which other areas are on your list of 'problems to solve'? Please contact us to discuss the issues that are of interest to you.

## Focus on leaving your business

### YOU'VE STARTED – WHEN WILL YOU FINISH?

Everyone in business should have a personal exit strategy. We sometimes refer to this as 'starting with the end in mind'.

The exact details of your strategy will depend on circumstances, but are you considering:

- passing on your business to your children or other family members, or a family trust?
- selling your share in the business to your co-owners or partners?
- selling your business to some or all of the workforce?
- selling the business to a third party?
- public flotation or sale to a public company?
- winding up?
- minimising your tax liability?
- what you will do when you no longer own the business?

Whatever thoughts you have on the sale of your business, we know from our experience that careful planning and the right advice is essential.

Indeed, having clear and timely advice can help you create and put into practice your strategies at each stage of your business life. The best time to develop the next step in your planning is now.

### THE SALE OF YOUR BUSINESS

If you consider your business has a market value, or if you are looking to your business to provide you with a lump sum on sale, it is important to plan now how you will realise that value. This is particularly important if you envisage realising the value of your business in the next 20 years.

#### TIP

*Whatever thoughts you have on the sale of your business, careful planning and the right advice is essential*

Selling your business is a major personal decision and it is essential to plan how you will maximise the net proceeds from its sale. When might you sell your business?

Who are the prospective purchasers? What are the opportunities to reduce the tax due following your sale? Let us work with you to help you maximise the potential from your 'ultimate sale'.

### MAXIMISING THE SALE PRICE

Whoever buys your business will want to be clear about the underlying profitability trends – are the profits on the increase or decrease? Up-to-date management accounts and forecasts for the next 12 months will be close to the top of the list of the information which you should be prepared to make available to prospective purchasers.

The value attributable to many businesses is driven by the historical profits and therefore a rising trend in profitability should result in an increase in the business's value.

Profitability planning is always important but particularly in the years leading up to the sale. So, what is the range of values for your business? Although you may think you can make an educated guess, a professional valuation gives you more solid ground. Assess your position today and then work with us to see how you can make your business more valuable.

### PROFITABILITY CHECKLIST

Are sales flat, growing only at the rate of inflation, or exceeding it?

Is yours a service business with limited fixed assets, or are stock and equipment a large part of your company's value?

To what extent does your business depend on the health of other industries or of the economy?

What is the outlook for your line of business as a whole?

Will your company's products and processes be outmoded in the near future?

Does your company use up-to-date technology and have a well-developed research and development programme?

How competitive is the market for your company's goods or services?

Does your company have to contend with extensive regulation?

Are your company's products and services diversified?

What are your competitors doing that you should be doing, or could do better?

How strong is the company's staff that would remain after your sale?

## WHEN SHOULD YOU SELL?

### Personal factors

There are many personal factors that are likely to influence your decision with regard to when to sell your business. You may need to think about:

- when do you want to retire?
- has your health begun to deteriorate?
- do you still relish the challenges of running your business?
- does your business have an heir apparent?
- will your income stream and wealth be adequate, post sale?

### Business factors

External factors can also be important in timing your sale. If you can time your business sale to coincide with a period of economic growth, when buyers outnumber sellers and will pay premium prices, you will most likely receive the best price. The following questions may assist in assessing the climate for selling the business:

- what are the current trends in the stock market?
- to what extent is your business 'trendy' or at the leading edge?
- is your business forecasting increases to the top and bottom lines?
- is your business doing better than other similar businesses?
- is your business at, or near, its full potential?

## MINIMISING THE CAPITAL TAXES

Taxes are, according to many, the bane of the businessman's life. When you raise that final sales invoice and take the proceeds from the sale of your business, you should be completing one of the last steps in a strategy aimed at maximising the net return by minimising the capital gains tax (CGT) on sale.

### CGT and your business

As a basic principle, CGT is charged on the difference between what you paid for an asset and what you receive when you sell it, adjusted for indexation allowance and then, for individuals and trustees, reduced by any available taper relief and such amount of your annual CGT exemption as has not been set against other gains. There are several other provisions, which may also need to be factored into the calculation of any CGT liability.

### The benefit of indexation and other reliefs

Indexation allowance effectively removes from the charge to tax an amount representing gains resulting from inflation, from date of acquisition (or 31 March 1982, if later), to April 1998 for individuals and trustees or to the date of disposal for companies.

Reliefs can reduce a 40% CGT bill to zero. It is vital if you want to maximise your net proceeds that you consult with us about the timing of a sale, and the CGT reliefs and exemptions which you might be entitled to claim.



### The value of taper relief

Taper relief applies only to disposals by individuals and trustees.

The value of taper relief depends on whether or not the asset is a 'business asset', and on the number of complete years the asset has been held after 5 April 1998.

Not all assets of your business are business assets and not all business assets qualify. We can help you plan to minimise taxes by discussing in advance how you can maximise taper relief.

The maximum 75% taper relief for business assets is available after two complete years.

Business assets taper relief	
Number of complete years asset held after 5 April 1998	% of gain chargeable
Less than one	100
One	50
Two	25

The taper is then applied to the net gains chargeable for a year, after deducting reliefs and setting off losses of the same year and any losses brought forward.

Because the relief is applied before deducting the annual CGT exemption, it may be that the effective rate of CGT on the disposal of business assets can be less than 10%.

With care, and our help, you may reduce your tax on the sale of your business to less than 10%.

Example: Assume a business asset is disposed of in November 2004, having been held since before 5 April 1998. The holding period will qualify the gain for the maximum taper relief:

Gain	100,000
Taper relief	- 75,000
	<b>25,000</b>
Annual exemption	- 8,200
Chargeable to tax at 40%	16,800
<b>Tax due</b>	<b>6,720</b>
<b>Giving an effective rate of tax of less than 7%.</b>	

When you are planning to sell, you should discuss with us how taper relief might apply, especially if assets did not qualify as business assets under the original legislation.

Special rules apply when the asset qualifies only as a result of the subsequent changes to the definition of business assets, or alternatively when the use of the asset has changed from business to non-business, or vice versa.

Example: An asset has been owned from April 1999 to May 2009. It was a business asset from May 2004 to disposal. With a gain on disposal of £100,000 the taper relief would be

<b>Business asset rate</b>	
$£100,000 \times 5/10 \times 75\%$	37,500
<b>Non-business asset rate</b>	
$£100,000 \times 5/10 \times 40\%$	20,000
<b>Taper relief</b>	<b>£57,500</b>
<b>Compared with £75,000 in the previous example.</b>	

Where gains have been relieved under, for example, the provisions for rollover relief on the replacement of business assets, the taper is usually by reference to the length of time the new asset is held.

Where a gain is deferred (for example, via a VCT or an EIS investment) the taper is normally by reference to the length of time the original asset was held.

*Can you plan the disposal of your business if you do not know what it is worth – and how to maximise its value?*

### Holdover relief

This relief generally applies to gifts of business assets by rolling the donor’s gain over to the donee – effectively passing on the donor’s gain to be added to any gain realised later by the donee. For taper relief, only the holding period of the new owner will be taken into account.

### Rollover relief

This relief applies to the replacement of business assets, and normally operates by reducing the cost of any new asset by an appropriate proportion of the gain realised on the disposal of the old asset. Taper relief will be calculated on the eventual disposal of the new asset, by reference to the period of ownership of that asset.

### EIS companies

For serial entrepreneurs CGT taper relief is applied to the gain on the first investment as if it had been invested in one company throughout the period the investor remains invested in EIS companies. This means that it is possible to defer a gain into a series of investments.

### Inheritance tax and your business

The IHT threshold now stands at £263,000.

For the business owner, the vital elements in the IHT regime are the reliefs on business and agricultural property (up to 100%), which continue to afford exemption on the transfer of qualifying property, or a qualifying shareholding. However, increased house prices and a relatively low IHT threshold mean that you may be among the many people who need to plan and act now to reduce the tax which may be due on your estate. Check with us for further information and recommendations.

We are experienced in advising clients regarding business and tax planning – or, more to the point, helping businesses to make more profits and pay less tax. One logical extension to that is helping clients raise more money from the sale of their business, including advice on priming the business for sale, finding suitable purchasers and maximising the sale price.

We would welcome an opportunity to advise you on developing and implementing successful tax and financial strategies for your business exit and for realising your personal financial goals.

Call us to discuss areas where we can help.

# Focus on your job

## IS YOUR PAYE CODE CORRECT?

Many people can go for years paying too much (or, perhaps more worryingly, too little) tax.

PAYE aims to see that over the course of a tax year, approximately the right amount of tax is deducted from your earnings. This is done by the issue of one, or sometimes a series, of tax codes, which are used by your employer to calculate the tax to be deducted from your earnings.

Unfortunately, many employees have incorrect tax codes. In particular, they may not have notified the tax office of changes in their circumstances that would affect their tax position, such as changing jobs and losing the benefit of a company car, or they may have started investing in a personal pension plan.

It is important that we check your PAYE code now, because it is much easier to rectify mistakes before the tax year ends.

## YOUR REMUNERATION PACKAGE

An attractive remuneration package can include any of the following:

- salary
- reimbursement of expenses
- more generous expenses – business travel in first or business class, or a better quality hotel on business trips
- bonus schemes and profit-related pay
- share incentive arrangements
- pension provisions
- child care
- life assurance and/or health care
- choice of a company car or additional salary and reimbursement of car expenses for business travel in your own car
- mobile phone
- use of a computer at home and contributions to the additional costs of working at home
- other benefits in kind including, for example, an annual function costing not more than £150 per head, or long service awards.

Of course, negotiating the appropriate package is a matter for you and your employer, but you should seek our advice to ensure that your overall package is as tax and NI efficient as possible.

## CHEAP OR INTEREST-FREE LOANS

Where loans from an employer total more than £5,000, tax is chargeable on the difference between any interest actually paid and interest calculated at the official rate.

## EXPENSE PAYMENTS

Your employer is required to report expenses payments to the Inland Revenue on form P11D each year. To avoid paying tax on these payments you have to claim a deduction on your Tax Return – your employer will provide you with a copy of your 2003/04 P11D no later than the 6 July 2004.

This cumbersome process of reporting and claiming may be avoided if your employer has been granted a dispensation.

You may be able to claim tax relief for other expenses you incur in connection with your job, but the rules are fairly restrictive.

## TRAVEL AND SUBSISTENCE

Site-based employees are able to claim a deduction for travel to and from the site at which they are working, plus subsistence costs when they stay at or near the site.

Employees working away from their normal place of work can claim a deduction for the cost of travel to and from their temporary place of work. The maximum period for which a place of work can be regarded as 'temporary' is currently 24 months.

## PENSIONS

Employer contributions to your pension scheme or your own personal pension policies are not liable for tax or NICs. You should be aware that while your employer can contribute to your personal pension scheme, these contributions are added to your own for the purpose of capping.

## PROFIT RELATED PAY

Although there are no tax breaks, profit related pay is an incentive to many to work harder and enjoy some of the benefits of the employer's increase in profits.

There can also be an NI saving for employees (not directors) if performance related pay is not included in the weekly or monthly pay, but instead paid as a bonus.

Consult us about this, and other NI reduction ideas.

## COMPANY CARS

CO <sub>2</sub> in g/km	Taxable %		CO <sub>2</sub> in g/km	Taxable %		CO <sub>2</sub> in g/km	Taxable %	
	Petrol	Diesel		Petrol	Diesel		Petrol	Diesel
Less than 150	15%	18%	180 to 184	22%	25%	215 to 219	29%	32%
150 to 154	16%	19%	185 to 189	23%	26%	220 to 224	30%	33%
155 to 159	17%	20%	190 to 194	24%	27%	225 to 229	31%	34%
160 to 164	18%	21%	195 to 199	25%	28%	230 to 234	32%	35%
165 to 169	19%	22%	200 to 204	26%	29%	235 to 239	33%	35%
170 to 174	20%	23%	205 to 209	27%	30%	240 to 244	34%	35%
175 to 179	21%	24%	210 to 214	28%	31%	245 and over	35%	35%

The 15% rate for petrol cars and 18% rate for diesels will apply for cars with CO<sub>2</sub> emissions of less than 145g/km for 2005/06 and 2006/07. Discounts apply for 'greener' cars. Ask us for details of your options.

The company car continues to be an important part of the remuneration package for many employees despite the increases in the taxable benefit rates, both current and announced.

Tax is charged on the provision of the car and on the provision of fuel by employers for private mileage. Employers pay Class 1A NICs at 12.8% on the same amount. (Payable by the 19 July following the end of the tax year).

The amount on which tax and Class 1A NICs is paid in respect of a company car depends on a number of factors. Essentially, the amount charged is calculated by multiplying the list price of the car, including most accessories, by a percentage. The percentage is set by reference to the rate at which the car emits carbon dioxide (see table above).

### Private mileage

The taxable benefit is calculated by multiplying a nominal figure of £14,400, by the same percentage.

You can avoid the car fuel charge by either paying for all fuel yourself and claiming the cost of fuel for business journeys at the Inland Revenue advisory rates, or by reimbursing your employer for fuel used privately using the same rates:

Engine capacity	Rate per mile		
	Petrol	Diesel	Gas
Up to 1400cc	10p	9p	6p
1401 - 2000cc	12p	9p	7p
Over 2000cc	14p	12p	9p

Many people now question the wisdom of having a company car, and consider instead running their own car and claiming reimbursement from their employer for business travel at the Inland Revenue approved mileage rates. We can help you review your options, the costs and the benefits, so that you can make an informed decision.

### Example

Peter is an owner-director. For his company car he had chosen one which, on the date before it was first registered, had a list price of £18,000. The car runs on petrol, and emits CO<sub>2</sub> at a rate of 182 g/km.

Peter's company is successful and he pays tax at 40%. His 2004/05 tax bill on the car is therefore:

$$£18,000 \times 22\% \times 40\% = £1,584.00$$

Peter's company will pay Class 1A NICs of:

$$£18,000 \times 22\% \times 12.8\% = £506.88$$

The company also pays for all of Peter's petrol. Because Peter does not reimburse the cost of fuel for private journeys, he will pay tax of:

$$£14,400 \times 22\% \times 40\% = £1,267.20$$

and the company will pay Class 1A NICs of:

$$£14,400 \times 22\% \times 12.8\% = £405.50$$

The total tax and NI costs are therefore over **£3,760**.

Furthermore, although the company is paying for the fuel, the company will also need to pay a gross amount of over **£4,830** to provide Peter with the funds to pay the tax.

When employers' national insurance is taken into account, the gross cost of funding Peter's tax and the NI liabilities will be nearly **£6,400**.

### How we can help

The tax cost of company cars has risen significantly over the last few years, and we can help you review your company car strategy and discuss where savings can be achieved.

Meanwhile, consider that until 2007 the maximum tax payable by an employee or director on a company 'van' is only £200, and there is no charge for fuel provided. The rules are due to change from 6 April 2007 – at current rates the maximum tax will rise to £1,200, plus up to £200 for fuel.

Many people have seen significant savings for both employer and employee in replacing company cars with employee-owned cars part-funded by mileage allowances at the Inland Revenue rates – where a company vehicle is still appropriate, a 'van' rather than a car is worth considering.

Talk to us – you might be pleasantly surprised by some of the vehicles that qualify as 'vans' – and there are many other aspects of employee taxation where we can advise.

# Focus on your people

## BRINGING IN PEOPLE FROM OUTSIDE YOUR COMPANY...

*...and keeping them, once you've got them*

Under the Enterprise Management Incentives scheme (EMI) employees can be granted options over shares in your company. Employee commitment can be rewarded through the growth in value of options, with the resulting capital gain taxable at 10%, or less.

EMI and the Share Incentive Plan (SIP) are tax efficient incentives that can be packaged to attract and retain the right people for the future of your company, at a cost the company can afford. Even the potential NI liability on the growth in value of SIP shares during the option period can be attached, by consent, to the employee.

We would welcome the opportunity to discuss an employee share ownership strategy, whether for individual cases or for the entire workforce.

## Six ways to keep your best people happy

- 1 Reward performance – and remember, the more people earn, the less ‘money’ might be appreciated. Consider innovative ways to reward performance (a day at a health farm, a team ‘away weekend’, an upgrade on the next company car, a business class ticket for the next business trip ...).
- 2 Offer equity – committed employees might appreciate an opportunity to share in the ownership of the business, and the long-term rewards.
- 3 Create a healthy atmosphere – people who enjoy going to work each day are likely to do the best work. Encourage participation and communication, in and out of the workplace and recognise the value of the team. Can you improve the physical conditions of the workplace?
- 4 Provide challenges – many people are dissatisfied at work because they cannot see where their careers are going. Provide training and support and offer career advancement.
- 5 Be flexible – can you get the best out of your people by offering something other than 9 to 5 and five weeks’ holiday? What about home working, flexible hours and ‘duvet days’?
- 6 Say ‘thank you’.

## BRINGING IN INVESTORS

There are several schemes under which tax reliefs or tax deferrals are available on investment in new and growing businesses:

- the Enterprise Investment Scheme allows income tax relief and CGT deferral, plus a tax exemption for any increase in the value of the investment
- Venture Capital Trusts offer income tax reliefs and the opportunity to pool investment with others looking to invest in qualifying companies
- Corporate Venturing offers companies tax breaks when they invest in smaller companies.

The rules and tax breaks for each scheme are different, but please discuss the options with us if you are thinking of attracting outside investors.

The tax exemption for trading companies and groups on the sale of shareholdings of 10% or more in trading companies may also encourage corporate investors.

If you are aiming to bring new investment into your company, you will need to have a very clear idea of why the investors should choose your company, and what they can expect to get out of it. You will need to have a comprehensive business plan, with supporting financial forecasts, to put before potential investors or lenders.

## GETTING THE BEST OUT OF YOUR ‘PARTNERS’

Successful firms achieve continuing improvement through open communication between partners, between partners and staff, and between the firm and its customers and suppliers. Without communication, questions become problems, problems become disputes, and disputes lead to an unsatisfactory experience for all involved.

### Keeping your business partnerships on track?

Set out the ground rules

Monitor performance

Identify problem areas

Act once problems have been identified

## Focus on your retirement savings strategies

The basic state pension for a married couple is just over £6,600 per annum. For most people, saving to provide for a comfortable and financially secure retirement includes tax efficient investment in an appropriate form of company pension scheme or private pension policy.

The Government estimates that 50% of the retired population (10% of the entire population) does not pay tax. That means that 5 million pensioners could be living on less than £130 per week.

New rules come into force in 2006 which will place an overall limit on tax-advantaged pension savings of £1.5 million. That limit is set to increase each year until 2010, when it will reach £1.8 million. There will be a tax charge for value in excess of the limit, and for excess contributions or increases (initially set at £215,000) but the new rules will simplify some eight current schemes into one. Transitional arrangements will protect those who have already reached the 'lifetime' savings limit at 5 April 2006.

For now, whether you choose to focus on investment in a pension scheme or pension policy or to spread your retirement savings into other products, you need to take advice on your options.

### RETIREMENT PLANNING

You can estimate your post-retirement living expenses at roughly 60-80% of your current living expenses.

Studies have shown that, comparing people aged 45-54 and those aged 65 or more, the average reduction in expenses is:

personal care, heat, light & food	35%
housing and furnishings	39%
entertainment	50%
clothing	56%
insurance	85%
education	88%

Your retirement planning strategy will be determined by a number of factors:

- is there a company pension scheme?
- are you self-employed?
- how old are you?
- how much can you invest for retirement?

**At an average annual return of 5% and with 35 years to go to retirement, saving £176 per month would give you a retirement nest egg of £200,000.**

**With 20 years to retirement, you would need to save £487 per month; with ten years that figure increases to £1,288 per month. An early start to retirement saving is invaluable.**

### COMPANY PENSIONS

There are two kinds of company pension scheme, into which you and your employer may contribute. A final salary scheme pays a retirement income related to the amount you are earning when you stop work, while a money purchase scheme instead reflects the amount invested and the fund investment performance.

In both cases, you will have access to tax free cash as well as to the actual pension.

The impact of falling stock markets and annuity rates has resulted in many final salary schemes being closed and thus where companies do provide company pensions these are now almost always based on money purchase.

Those already in company pension schemes will know that the rate at which contributions can be made is limited to 15% of (capped) earnings. However, those wishing to maximise retirement savings can invest concurrently in a personal pension policy. There are restrictions, but up to £3,600 (gross) can be invested each year.

### PRIVATE PENSIONS

If you are not in a company scheme, you should make your own arrangements, since relying on the state pension is already unwise, and will become more so with every passing year.

### PERSONAL PENSIONS

Investment in personal pensions is limited to a percentage (based on age) of earnings, subject to a £102,000 cap.

Limits for 2004/05 are:

Age at 6 April 2004	% limit	Maximum (% x cap)
35 or less	17.5	17,850
36 - 45	20	20,400
46 - 50	25	25,500
51 - 55	30	30,600
56 - 60	35	35,700
61 - 74	40	40,800

Where the premiums paid in one tax year fall short of the maximum, then subject to stringent rules on timing of claims and payments, a ‘top up’ premium can be paid up to 31 January of the following tax year. The time limit for topping up 2003/04 premiums is therefore 31 January 2005.

Premiums on personal pension policies and stakeholder pensions are payable net of basic rate tax relief at source, with any appropriate higher rate relief usually being claimed via the PAYE code or self assessment Tax Return.

### Example

Jeremy will earn **£45,000** (including company car benefit) this year. He is 33 years old and could therefore invest up to **£7,875** into his personal pension policy. He has no other income and claims only the standard personal allowance.

If Jeremy wishes to invest the maximum, he would write out a cheque to his pension provider of the premium, net of basic rate tax relief, **£6,142.50**. Jeremy is also entitled to higher rate tax relief on the gross premium, amounting to **£1,417.50**. As an employee, we can ask the Inland Revenue to give the relief through Jeremy’s PAYE code. Otherwise, we would claim in Jeremy’s 2005 Tax Return.

Thus the net cost to Jeremy of a **£7,875** contribution to his pension policy is just **£4,725**.

Premiums can be set by reference to certified earnings for a previous year, within the preceding five years. Earnings can be re-certified at any time during the five years after the initial certified year if earnings rise. Contributions can continue by reference to the certified earnings for up to five years after ceasing work, so long as the payer is neither in pensionable employment nor aged 75 or over.

You will normally have selected one fund, or a spread of funds, for your pension savings. Would a switch give you more security or the scope for more growth?

### SIPPs

In response to poor performances from pension fund managers, many retirement savers have switched their pension savings into Self Invested Personal Pension policies (SIPPs) – a form of personal pension plan which gives the investor a great deal of influence over how the funds are invested.

### STAKEHOLDER PENSIONS

Stakeholder pension premiums are subject to a minimum £20 investment, and a 1% per annum ceiling on charges. Premiums of up to £3,600 before tax relief (£2,808 net) can be paid each year, regardless of earnings. Additional premiums are subject to the same rules as for personal pension policies.

Stakeholder premiums can be paid on behalf of another person – for example, a grandparent for an infant grandchild.

## RETIREMENT ANNUITIES

Available only where a policy currently exists. Premiums paid under retirement annuity policies are not subject to a cap on earnings.

The maximum percentage is, however, lower:

Age at 6 April 2004	% limit	Age at 6 April 2004	% limit
50 or under	17.5	56 - 60	22.5
51 - 55	20	61 - 74	27.5

While the percentage limit on retirement annuity premiums is lower than that for personal pension premiums, the fact that earnings are not subject to a cap means that high earners may be able to invest more in retirement annuity policies. Where premiums have fallen short of the maximum permitted figure, the shortfall can be carried forward to increase the amount which would otherwise qualify for tax relief in a subsequent year, up to a maximum six years. Premiums can, on an election being made, also be carried back for one year.

Retirement annuity premiums are payable gross, with all tax relief via either the payer’s PAYE code, or the self assessment Tax Return.

### START NOW

Although it’s never too late to plan for your retirement, the earlier you start, the more chance you will have to accumulate the funds you will need.

In the current climate, whether you choose to focus on pension savings, alternative savings products, or a combination of both, your savings will need time to grow.

To create a retirement fund of about £225,000 over 25 years, you would have to save about £7,000 every year, assuming approximately 2% growth. Saved in an ISA, the cost over 25 years would be £175,000, compared with £105,000 if you obtained 40% tax relief on your pension policy premiums. On the other hand, at retirement, the pension policy would provide a tax free lump sum and a modest annuity (or go into drawdown), while the funds in the ISA would be available to draw, free of tax, immediately (or they can be drawn before retirement, subject to plan rules). Partly influenced by the Equitable Life debacle and poor investment performance and annuity rates, many people are now spreading their savings between company or personal pension schemes and other savings vehicles.

Care needs to be taken, and proper advice obtained – after all, it is your financial future that is at stake.

## Focus on your investment strategies

Growing your savings and being able to retire when and how you want is one of your most important financial objectives. But achieving this goal takes planning and perseverance.

### MAKING SURE THE PIECES FIT

Putting your financial affairs in order is a bit like completing a jigsaw, where the main pieces are savings, investment, protection, and taxation. If you get it right, the picture can be very attractive, but get it wrong and the picture can look very muddled.

The problem is that life does not come with a picture on the lid.

**How can you gauge the difference between saving and investing?**

**What sort of insurance do you need?**

**How much should you be salting away for your retirement?**

**Are you paying too much tax?**

The answers to these questions are different for each person, depending on individual circumstances, but there are certain strategies that make sense in most cases. If you can identify the broad principles that are relevant to your situation, you can use them to improve your financial standing.

Use this section in the same way you would use the picture on the box of a jigsaw puzzle. Once you see how the pieces fit together, you will be able to take the right steps to make the most of your money.

The '4Way Plan' to achieving your savings goals:

- 1 **W**here are you today?
- 2 **W**here do you want to be tomorrow?
- 3 **W**hat will you have to do to get there?
- 4 **W**hat are you waiting for?

### MAKING THE MOST OF YOUR INVESTMENTS

When determining your financial strategy, it is important to understand the difference between saving and investing. If you save money on deposit with a bank or building society you will earn interest. If you buy shares or invest in a share-backed plan such as a unit trust or a life assurance policy, you will have the opportunity to earn dividend income and benefit from capital growth as the shares go up in value. The records show that in the long term the best share investments outstrip the best building society accounts in terms of the total returns they generate.

However, it is important to remember that shares can go down in value as well as up, and dividend income can fluctuate, as has been the case in the four years to 2004. If you choose the wrong investment you can get back less than you put in. The watchword, therefore, must be caution.

You will need to consider the most important factors for you in your investment strategy.

### TAX EFFICIENCY

Paying tax on your savings and investment earnings is obviously to be avoided if at all possible. There are a number of investment products that produce tax free income, including some National Savings products.

### NATIONAL SAVINGS

Although the products on offer from National Savings are unlikely to be at the cutting edge, a tax free return of, say, 2.95% compound guaranteed over five years is a return equal to 4.92% for someone paying higher rate tax. Premium bonds may be quoted as offering an 'interest equivalent' of just 2.4%, but there is a chance at winning a tax free million!

### INVESTMENT BONDS

Those with a lump sum to invest might consider an investment bond. This is a life insurance product and the norm is to draw a tax free sum equal to 5% of the original investment for the life of the bond. On maturity, usually after 20 years, any surplus is taxable, but with a credit for basic rate tax. Higher rate tax might be payable, but 'top slicing' relief might apply.

### BANK AND BUILDING SOCIETY ACCOUNTS

Although, as we have already suggested, history records that long-term investment in shares will outperform savings with a bank or building society, you should not overlook (a) the higher degree of certainty over investment return and (b) the (usually) ready access to your funds. Interest is liable to income tax.

### STOCKS AND SHARES

Investment in stocks and shares gives, in theory, the best chance of long-term growth. On the other hand, it is a volatile market, and should perhaps be avoided by the faint-hearted. Investment in unit trusts and investment trusts are designed to spread the risk, and add an element of management, without the expense of broker advice, for the small investor. Capital gains are charged to tax, as are dividends.

## BRICKS AND MORTAR

Many people have opted to invest for the future in property – exchanging current income for a hoped-for longer term growth in value. ‘Buy to Let’ mortgages are commonly available.

## ISAs

Up to **£7,000** can be invested in an ISA this year.

Investors may choose to invest up to the limit with a single plan manager who can provide all three elements – a maxi ISA – or to invest with up to three separate managers, each handling separate elements – mini ISAs.

Those investing in a maxi ISA have the option to invest the full **£7,000** in stocks and shares, or up to **£3,000** in cash and deposits and up to **£1,000** in a single premium life insurance contract, with the balance up to the maximum in stocks and shares.

For those choosing mini ISAs, the limit for each element is:

- **£3,000** to be invested in stocks and shares
- **£3,000** to be held in cash and deposits
- **£1,000** to be held in a single premium life insurance contract.

16 and 17-year olds can invest up to **£3,000**, either in a cash mini ISA or the cash element of a maxi ISA.

Income from most investments within an ISA is tax free.

Although most income accruing in an ISA does so tax-free, the tax credit on post-5 April 2004 UK dividend income cannot be recovered. All investments held in ISAs are free of CGT.

There is no minimum investment period for funds invested in ISAs – withdrawals can be made at any time without loss of tax relief. However, some plan managers offer incentives, such as better rates of interest, in return for a commitment to restrictions such as a 90-day notice period for withdrawals.

## PEPs

If you already have one or more PEPs, these can carry on in parallel with ISAs. No new investment can be made into PEPs.

## OTHER TAX-BREAK INVESTMENTS

Investments under the Enterprise Investment Scheme (EIS) and investments in Venture Capital Trusts (VCTs) are, generally, higher-risk investments. However, tax breaks aimed at encouraging new risk capital mean that EIS and VCT investments may have a place in your investment strategy.

## THE ENTERPRISE INVESTMENT SCHEME

Subject to various conditions, such investments attract income tax relief, limited to a maximum 20% relief on £200,000 of investment per annum. The maximum for a 2004/05 investment is 20% of £225,000, if £25,000 is carried back for relief in 2003/04 – speak to us for more details, as restrictions apply.

More importantly, they will attract unlimited CGT ‘deferral relief’ on the investment of chargeable gains.

In addition, although increases in the value of shares acquired under the EIS up to the £200,000 limit are not chargeable to CGT (as long as the shares are held for the required period), relief against chargeable gains or income is available for losses. The gross value of the company must not exceed £16 million after the investment and there are restrictions to ensure that investment is targeted at new risk capital.

## VENTURE CAPITAL TRUSTS

With similar restrictions on the type of company into which funds can be invested, VCTs now allow 40% income tax relief on investments up to £200,000 each tax year but no CGT deferral.

Gains and dividends on VCT shares are tax exempt.

## FILM FINANCE SCHEME

Those seeking to defer tax liabilities can consider investing in partnerships or limited liability partnerships through the film finance scheme (FFS).

Essentially, an FFS investor puts up roughly 20% of the gross investment and borrows the balance. The year one loss, roughly equal to 100% of the investment, is used to offset income or gains. Interest paid on the borrowing is tax-deductible, and income generated by the partnership, which is taxable, is used to service the loan.

### TIP

*One advantage of investments made outside of pension plans is that you will have easier access to them*

## Focus on your estate plan

Estate planning should start early in life. If your estate is large it could be subject to inheritance tax, but even if it is small, planning can ensure that your assets will go to your chosen beneficiaries.

Estimate the tax on your estate		£
<b>Value of:</b> Your home (and contents)		
Your business <sup>1</sup>		
Bank/savings account(s)		
Stocks and shares		
Insurance policies		
Car		
Jewellery		
Other assets		
<b>Total assets</b>		
<b>Deduct:</b>		
Mortgage		
Loans		
Other debts		
<b>Total liabilities</b> -		
Net value of assets		
Add: Gifts in last seven years <sup>2</sup>		
Deduct	-	263,000
<b>Taxable estate</b>	£	
<b>Tax at 40% is</b>	£	
<sup>1</sup> If you are not sure what your business is worth, we can help you value it. Most business assets currently qualify for inheritance tax reliefs.		
<sup>2</sup> Chargeable and potentially exempt transfers.		

### MAKING YOUR ESTATE PLAN

Start by answering the following questions:

**Who?** Who do you want to benefit from your wealth? What do you need to provide for your spouse? Should your children share equally in your estate – does one or more have special needs? Do you wish to include grandchildren? Would you like to give to charity?

**What?** Should your business pass only to those children who have become involved in the business, and should you compensate the others with assets of comparable value? Consider the implications of multiple ownership.

**When?** Consider the age and maturity of your beneficiaries. Should assets be placed into a trust restricting access to income and/or capital? Or should gifts wait until your death?

### USE YOUR EXEMPTIONS

You should make the best use of IHT exemptions, including the £3,000 annual exemption, normal expenditure gifts out of after-tax income, and marriage gifts up to specified limits. Also, you should not overlook the exemption for gifts you make of up to £250 per annum to any number of persons. Gifts between spouses are exempt from IHT\*, so consider equalising estates.

If you die within seven years of making substantial lifetime gifts, they will be added back into your estate and may result in a substantial IHT liability. You can take out a life assurance policy to cover this tax risk if you wish.

However you can make substantial gifts out of your taxable estate into trust now, and as a trustee retain control over the assets. Talk to us about lifetime gift planning.

### GIFTING BUSINESS ASSETS

If you have business or agricultural property, lifetime gifts now should safeguard the current high relief rates. Reliefs are available for lifetime gifts and upon death, but it would be unwise to take them for granted. As it is, such gifts may be liable to CGT, but a holdover election can normally be made. Take care, though, not to give away more than you can afford.

### GIFTING APPRECIATING ASSETS

Gifts do not have to be in cash. You could save more IHT and/or CGT by gifting assets with the potential for growth in value. Gift while the asset has a lower value, and the appreciation then accrues outside your estate.

### NORMAL GIFTS OUT OF INCOME

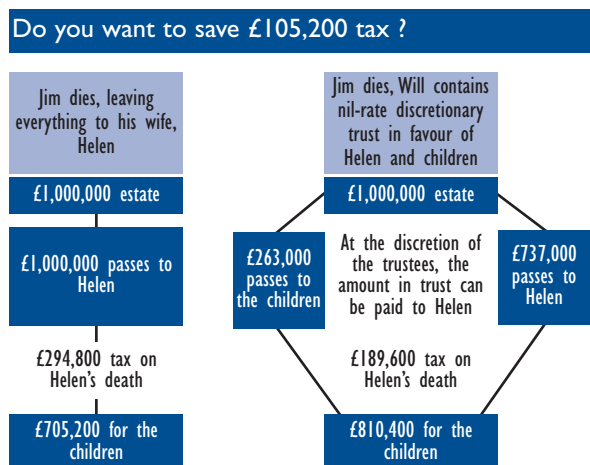
Another way to build up capital outside your own estate is to make regular gifts out of income, perhaps by way of premiums on an insurance policy written in trust for your heirs. Regular payments of this type will be exempt from IHT.

### USE THE NIL RATE BAND

If your estate is quite large, you could consider leaving up to the nil rate band limit of £263,000 to those other than your spouse. This avoids wasting a tax break as transfers from one spouse to the other are normally free of IHT anyway.

*\*Transfers on or within seven years of death to a spouse domiciled outside the UK are exempt only to the extent of £55,000.*

Alternatively, include a 'nil rate band trust' in your Will to allow your executors the freedom to direct part of your estate to people other than your spouse, but at the same time include your spouse on the list of potential beneficiaries to ensure that he or she can benefit from the trust if the need arises.



If business or agricultural property is included in the estate, it may be appropriate to leave it to someone other than your spouse; otherwise the special reliefs will be lost.

Have you:

- considered lifetime gifts?
- drawn up a business succession plan?
- considered making gifts to charity?
- considered trusts for lifetime and death gifts?
- structured your estate to minimise taxes on your death?
- drawn up a Will?
- considered if you are still happy with your choice of executors? Are they happy to do the job?
- recently reviewed your plans to ensure they are completely up-to-date?

Having taken the time and trouble to make a Will and prepare an estate plan, you must review it regularly to ensure it reflects changes in family and financial circumstances as well as changes in tax law.

With regular reviews we can help you to ensure that you make the most of estate planning tax breaks.

### ESTATE PLANNING POINTERS

For most people, estate planning is done against a background of the proverbial 'spouse and 2.4 children'. For others, special circumstances can mean there is more to consider.

**Single people** might not have given a thought to estate planning. But you should make a Will to set out your preferred funeral arrangements, how you want your estate to devolve on your death – and who will have responsibility for it.

Your estate might pass to your parents or your siblings, but would you prefer to leave your wealth to your nieces and nephews – with the bonus of potential IHT savings through 'generation skipping' – or using 'borrowed' children, to establish an accumulation and maintenance settlement now with potential major tax benefits for your own children in future years?

A different set of challenges faces parents in their **second marriages**, with children from former and current marriages.

If both partners are wealthy, you might want to direct more of your own wealth to children of your first marriage. If your partner is not wealthy you might wish to protect him or her by either a direct bequest or a life interest trust (allowing your assets to devolve on the second death according to **your** wishes). Should younger children receive a bigger share than adult children, already making their own ways in the world, and should your partner's children from the previous marriage benefit equally with your own?

If you are concerned about your former spouse gaining control of your wealth, consider creating a trust to ensure maximum flexibility in the hands of people you choose.

You need to plan to ensure that **your partner** is properly provided for. Look at your Will, pension provisions, life insurance and joint tenancies.

Your children may be grown up and financially secure. If your assets pass to them, you will be adding to their estate, and to the IHT which will be charged on their deaths. Instead, consider leaving something to your **grandchildren**.

### IS IT TIME TO REVIEW YOUR ESTATE PLAN?

As with all plans, we recommend that (a) you have one, and (b) having taken time to make a plan, you should review it regularly. Your plan is due a review if there has been a birth or death; a marriage or divorce; a move abroad; a significant change in the value of your estate; a new business, or the disposal of a previous business; a retirement; a relevant change in tax law.

We can help you work through changes to keep your estate plan tax-efficient and up-to-date.

## Focus on a lifetime of 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.

### The teenage years

The teenage years are an important time to learn the value of 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 a student loan, 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 and other long-term financial goals.

### Settling down

You will be buying your first home. You need to save for the deposit and furnishings, and to budget for the expenses 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 were begun when the children were born can help at this time, you might also need to consider making extra provision.

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. You might, for example, want to consider moving to a smaller house, acquiring a second home, or increasing your retirement funding.

### Nearing retirement

Your retirement plans should now be nearing fruition. As you approach retirement, you need to check at least once a year to satisfy yourself that your accumulated capital is not at risk and to ensure that your income in retirement will meet your needs – and provide a little extra for luxuries.

### In retirement

After forty 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.

### 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 £60. Charitable donations can also be included in your Will, and again they will attract tax relief.

Please speak to us for more information on making tax-efficient gifts to charity.

### TAX AND FINANCIAL PLANNING RESOLUTIONS

Select the points you want to take action on.

Realistically, you can only hope to put four or five points into practice over the next few months, so use the Action column to put your top five points into order of priority, 1-5.

In the next six months I will	Good idea	ACTION
Build net worth through planned investment strategies		
Start making tax-efficient savings, for the short or long term		
Minimise my income tax liability		
Protect my family by executing an enduring power of attorney		
Protect my assets from bankruptcy		
Start saving to fund my children's education		
Start my own business		
Raise finance for a new or expanding business		
Take action to make my remuneration or profit extraction more tax and NIC-efficient		
Invest in property – residential, investment or business		
Make arrangements to protect my family from financial hardship if I should die or become incapacitated		
Provide for my business if I, or any other key personnel, die or become unable to work		
Maximise savings in my final working years		
Save to maintain my current standard of living in retirement		
Minimise tax liability on my estate		
Find out what my business or other assets are really worth		
Transfer all or part of my business to my heirs		
Transfer other assets to my heirs		
Develop my estate plan as circumstances change		
Review my Will for tax efficiency		
Arrange for liquid assets to be available to fund taxes on my estate		
Review my charitable giving		
Arrange insurance – the right type, and the right amount		
<b>Discuss my plans with my accountant</b>	<b>✓</b>	<b>✓</b>