

The end of another tax year is rapidly approaching!

With less than a month to go it is important that you take advantage now of tax planning opportunities that may reduce your tax liabilities for the year ending 5th April 2005. Otherwise these opportunities may be lost (in some cases permanently).

If you are at all uncertain if the ideas we suggest this month are appropriate in your circumstances, then please do contact us and make an appointment for a review.

Some of the tax issues discussed below are very complex and this bulletin gives a generic overview only. Specific advice should be sought before proceeding with or refraining from any particular course of action.

Capital Gains Tax (CGT)

Every individual is allowed an annual exemption - £8,200 – which is CGT free.

If you have no gains so far this tax year and you wish to realise some of your assets, you may want to consider selling shares or other chargeable assets to utilise the tax-free allowance.



Married couples are entitled to £8,200 each so you can make a chargeable gain of £16,400 (after any taper relief) on the disposal of jointly held assets and pay no CGT (as long as the assets are held in equal shares).

Taper relief is a complex area that often benefits from early advice and planning - if you may be selling an asset within a few years you might save a great deal of tax by speaking to us now.

You may see other articles in the press etc, advising you to sell assets to make full use of the annual exemption. Our opinion is that to dispose of (or indeed purchase) assets *purely* for tax reasons is not a wise strategy.

If you would like advice on any proposed sale (or acquisition), please do contact us.
Create tax losses without selling assets!

If you own shares in certain small, private trading companies that are either in the process of liquidation, or are dormant, you may be able to claim for the shares to be considered of no value for tax purposes and consequently establish a capital loss. This loss can then be offset against other gains in the same tax year.

Alternatively, there may be an opportunity to set the capital losses created against your income. If you have no capital gains this can be a useful method to recover some of your lost investments in the form of an income tax refund. We would be pleased to advise in planning the best route to set-off losses created.



Venture Capital Trusts (VCT)

With effect from 6th April 2004, income tax relief on investments in qualifying VCTs increased to 40% for investments up to £200,000 per tax year. (At the same time, the previous capital gains tax deferral relief was removed.) Dividend income from VCT shares is exempt from income tax and gains on disposal are exempt from capital gains tax. Shares must be held for three years to secure fully these tax advantages.

These tax breaks come at a price, of course, and the price is the potential risk to your capital through the nature of the underlying investments. VCTs must invest 70% of their funds in small, unquoted or AIM companies within three years. Some of these companies will thrive and prosper; others will fall by the wayside. In the event of a capital loss, no tax relief is available for the loss.

ISAs

It is the time of year when we are all bombarded with ISA literature. ISAs are tax favoured accounts that can invest in cash, stocks and shares and life assurance. There is no income tax or CGT to pay on ISAs. The tax advantages are like the free gin and whisky miniatures on international flights – real and appreciated but pretty small in actual amount and usefulness.

On 6th April 2004, ISA plan managers lost the ability to recover the 10% tax credit on dividends. This effectively means that there is no income tax advantage for basic rate taxpayers to holding equity-based investments in ISAs. The situation for higher rate taxpayers is that the 10% tax credit is still unrecoverable but there is no further tax to pay. Outside the ISA wrapper, they would have a further liability of 25% on a dividend.

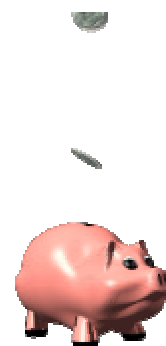
A cash ISA giving interest at 4.5% is the equivalent of a 7.5% return for a higher rate tax payer outside the ISA.

Pension Contributions

A few planning ideas to consider depending on the type of plan you are contributing to: -

Retirement Annuity Plans - it is possible to carry back all retirement annuity payments made during 2004-2005 to the previous tax year. This may be beneficial if you were a higher rate taxpayer last year (2003-2004) but are unlikely to be this year (this may almost double your tax relief!)

Personal Pension Plans – many clients who are maximising their contributions mop up the unused relief for the previous tax year by making a large contribution by 31 January and electing to carry it back to the previous year. If you have the funds available now for “mopping up” the relief for 2004/05, then making a contribution by 5 April 2005 (where you are a higher rate taxpayer) will reduce your balancing payment of tax due by 31 January 2006 and will also reduce your 2005/06 payments on account – a potential cash flow advantage for January and July 2006.



Salary sacrifice – if you want to maximise your pension fund pre A-Day (6 April 2006) it may be possible to enter into a successful salary sacrifice arrangement whereby your annual salary is reduced but the company makes a large contribution into your pension fund.

If you would like advice or further information on the different types of pension funds/contracts available or whether your contributions should be funded personally or by your company please do contact us.

Inheritance Tax (IHT)

The Government are continually tightening the legislation in connection with IHT.



Make sure you take advantage of the following annual gift exemptions. The cheque must clear your bank account by 5th April 2005.

- Annual gifts/transfers not exceeding £3,000 (per donor) – totally exempt
- Small gifts not exceeding £250 per donee
- Marriage gifts – exempt amounts are
 - ~ up to £5,000 by a parent
 - ~ up to £2,500 by a grandparent
 - ~ up to £2,500 by one party to the marriage to the other, and
 - ~ up to £1,000 by any other person.
- Regular gifts made out of your annual income that do not reduce your income below a level you would normally maintain for your own living costs, are exempt.
- Gifts to charities - Regular gifts to registered charities are exempt. We recommend that you consider making the gifts under the gift aid provisions as this will benefit both you and the charity - you can effect higher rate relief on the payments and the charity can reclaim basic rate tax paid.

For more information on any of the issues raised your current Hillier Hopkins contact will be happy to assist you.

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