



# Are you paying too much tax?

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 **Ellacotts**<sup>LLP</sup>  
Chartered Accountants & Business Advisers  
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# Introduction and welcome

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- Agenda & housekeeping
- Who is paying more tax? - Alan Boby
- How can tax be saved? (case studies) - Louise Winter
- What can you do to cut the tax bills? - Alan Boby

# Who is paying more tax?

Alan Boby  
Tax Partner





# Personal tax rates & allowances

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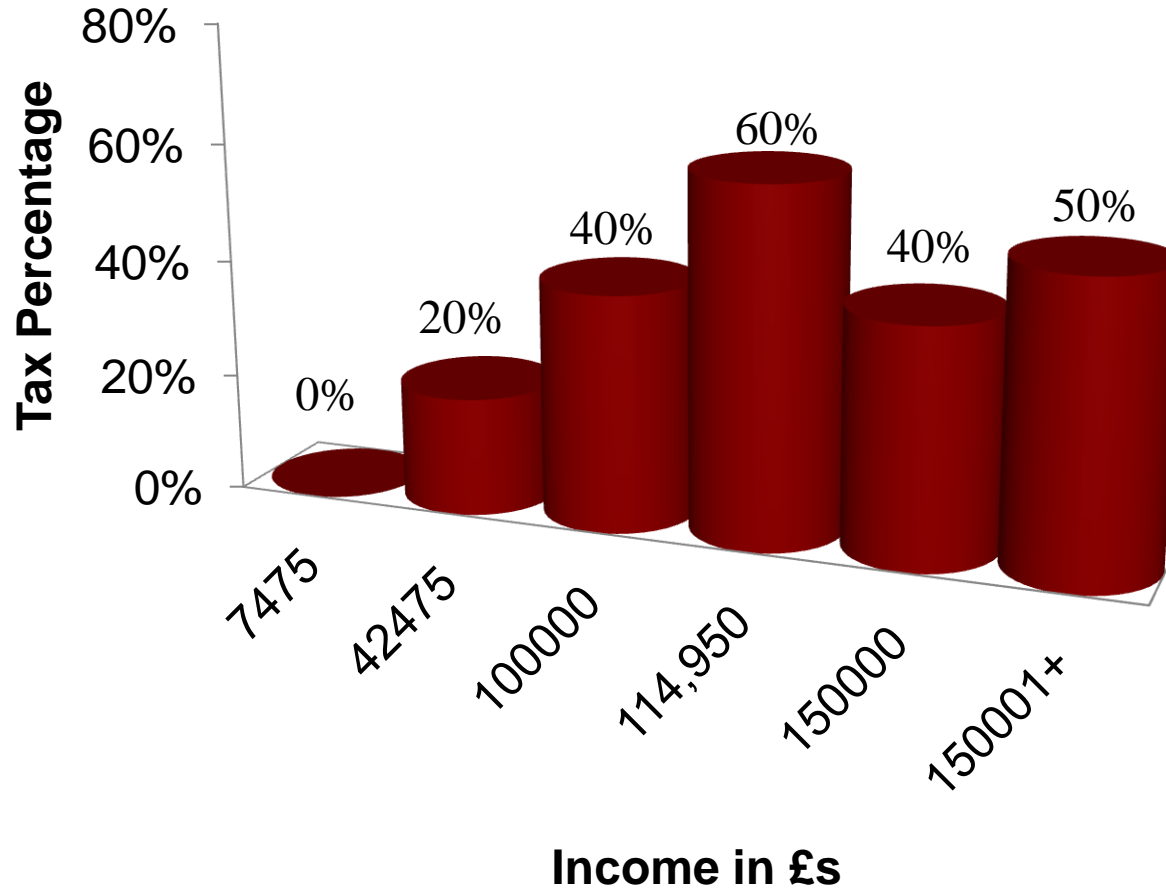
## Individuals

- Income tax rate bands:
  - 20% up to £42,475 - reduced by £1,400!
  - 40% from £42,476 to £150,000
  - 50% above £150,000 - 'temporary measure'
- Personal allowance £7,475 cut if income >£100k
- Pension payments tax relief capped at £50,000 but can claim unused relief for 3 prior years
- Capital gains tax (CGT) main rate now 28% but (18% for 'basic rate taxpayers')
- Trust income taxed at 50%



# Income tax bands

2011/12





## Business tax rates & reliefs

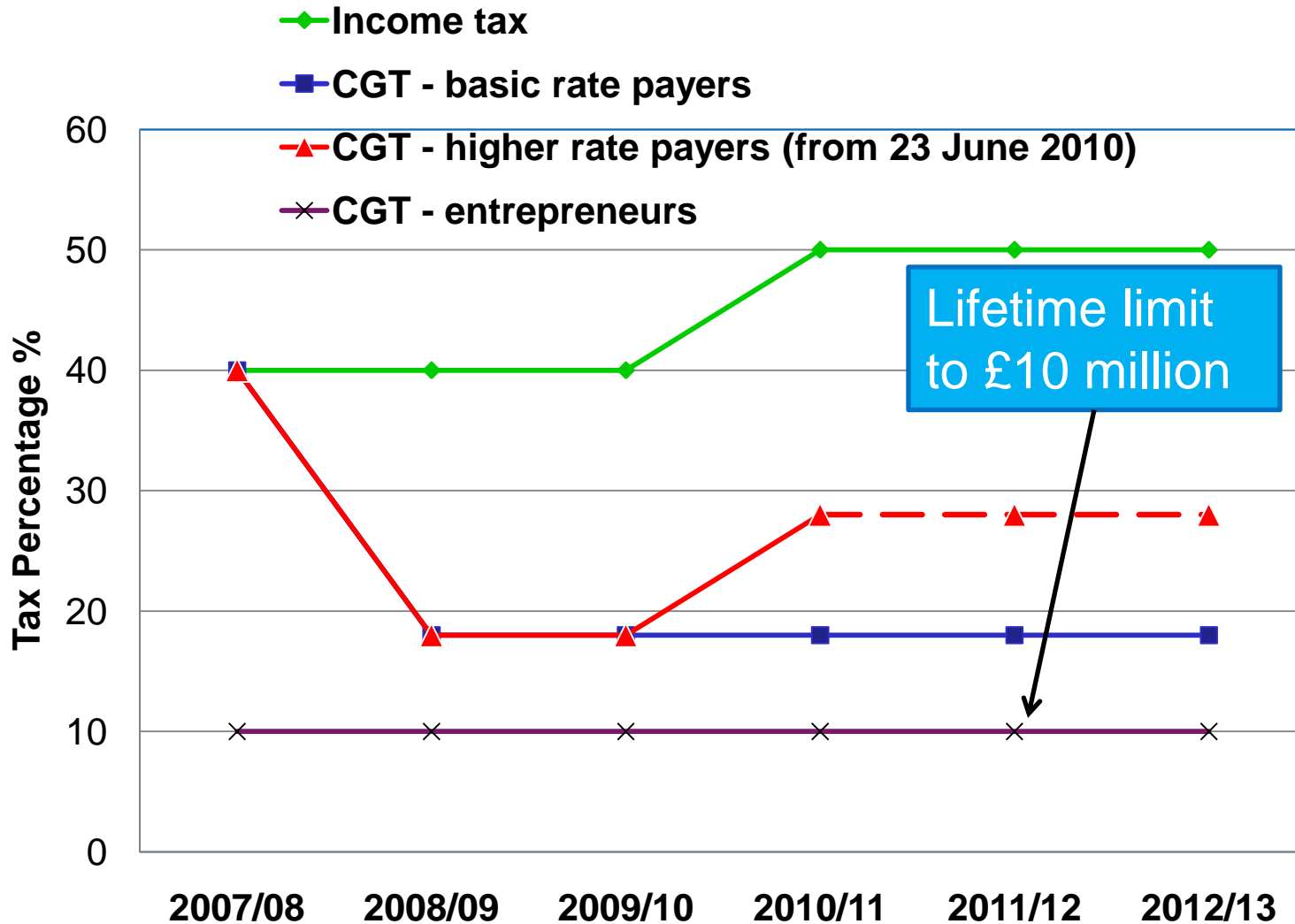
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- Capital allowances on plant & machinery – 100% on first £100,000 down to £25,000 from April 2012
- CGT 10% rate for entrepreneurs on gains of £10m
- NIC rates from April 2011
  - 13.8% for employers
  - 12%/2% for employees
  - 9%/2% for self-employed
- Corporation tax down to 20%/26%



# Income v capital gains

## Comparing tax rates






## Other taxes & reliefs

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- Inheritance tax – 20% (lifetime) + 40% rate (death)
  - gifts to individuals tax-free after 7 years
  - tax exemption up to £325,000 ('nil rate band')
  - reliefs for some business & agricultural assets
- VAT - 20% rate but relief for transfer of a 'business'
- Stamp duty land tax (SDLT)
  - nil to £125k (residential) & to £150k (other)
  - 3% > £250,000
  - 4% > £500,000 (5% > £1 million for residential)
  - some reliefs available



# How can tax be saved? (case studies)

Louise Winter  
Tax Manager





# Splitting property (1)

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Mr A



50%

Mr B



50%



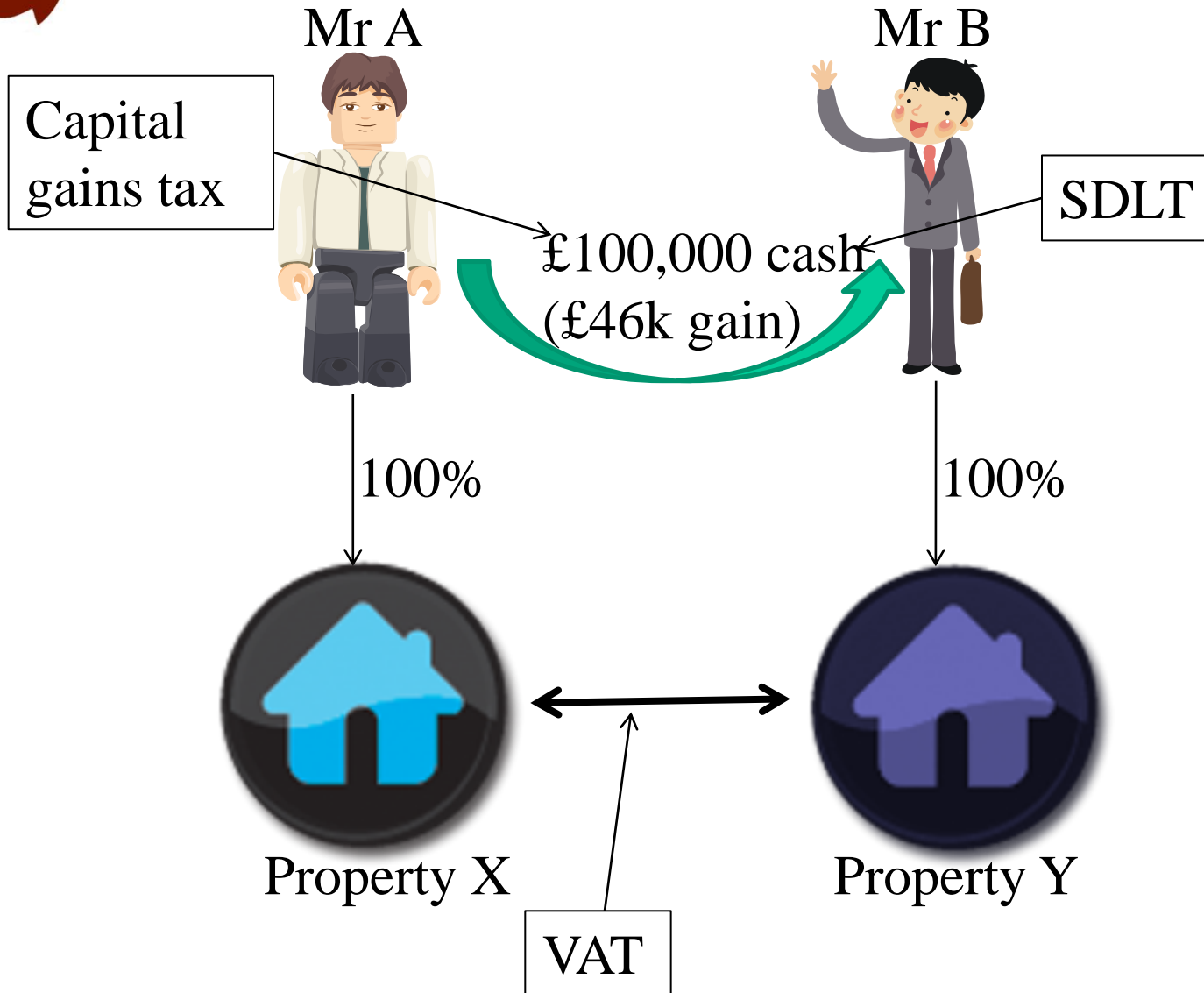
Property X  
(£125k gain)



Property Y  
(£175k gain)



# Splitting property (2)





## Splitting property (3)

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The result!

- Potential capital gains tax saved - £76,000  
(£272k @ 28%)
- VAT position – Neutral if a rental ‘business’
- Stamp duty – None if relief claimed

# Putting property in trust (1)

Mr C



Profits & rents



Business site



Properties  
V, W and X

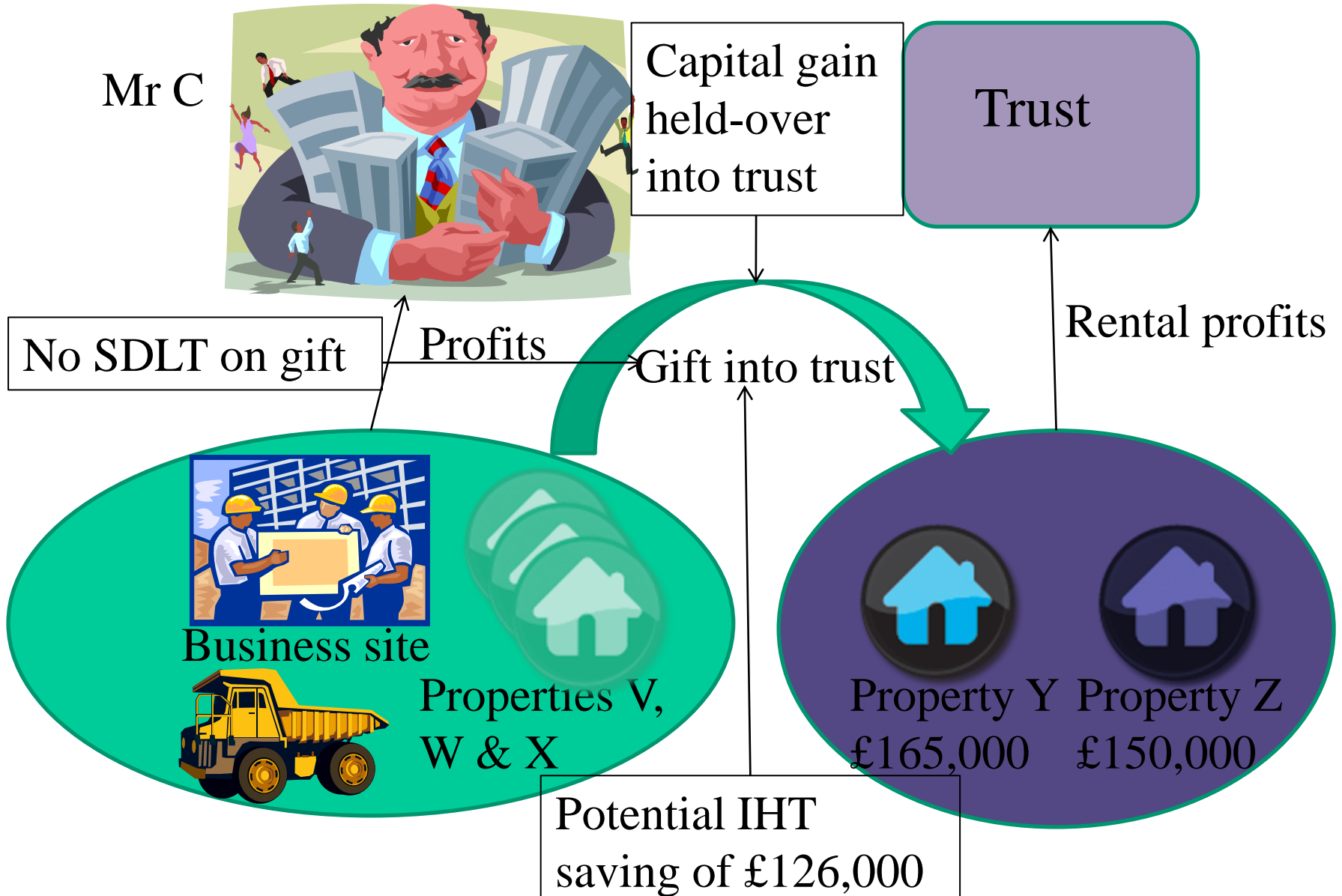


Property Y



Property Z

# Putting property in trust (2)





## Putting property in trust (3)

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The result!

- Potential inheritance tax saved - £126,000
- Stamp duty avoided - £9,450
- Potential income savings - £6,500

# What can you do to cut the tax bills?



Alan Boby  
Tax partner





## 6 income tax opportunities

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- Tax deductions & credits
- Advancing income
- Spreading income
- Sharing income
- Income shelters
- Convert income into capital gains



# **Tax planning opportunities (1)**

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## **Tax deductions/credits**

- Pension contributions – new limits with 3-year carry forward (up to £200,000!)
- EIS investments – 30% income tax credit on new shares up to £1,000,000 now effective
- Gift aid relief on charitable donations
- Use losses – trading losses or capital losses
- Capital allowances – eg 100% on first £100,000 of expenditure (until April 2012)
- Review car & car fuel benefits for employees/directors (NB new 45p per mile rate)



## **Tax planning opportunities (2)**

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### **Advancing/deferring income**

- Change business accounting date
- Timing of dividends & interest payments
- Timing of bonus payments



## **Tax planning opportunities (3)**

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### **Smoothing income**

- Keep total annual taxable income below limits:
  - £42,475
  - £100,000
  - £150,000
- Managing income (bonus/dividends payments)
- Disclaiming capital allowances
- Sharing income with others (see below)



## **Tax planning opportunities (4)**

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### **Sharing income or gains**

- Put assets into unequal joint names with spouse and elect for different income split
- Bring spouse/family members into business?\*(NB personal allowances up to £7,475)
- Issue or transfer shares to spouse/family members to share dividends \*
- Incorporate the business into a limited company

\* Beware settlement anti-avoidance rules (eg parental settlements) & draft anti-income shifting law



## **Tax planning opportunities (5)**

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### **Income shelters**

- Individuals savings accounts (ISAs)
- Pension schemes
- Leave UK – non-UK tax residence
- Tax planning structures
- Or .....



## **Tax planning opportunities (6)**

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### **Convert income into capital gains**

- Sell the asset or business (28%, 18% or 10%?)
- Transfer to connected party, trust or pension scheme
- Company buy-back of shares
  - eg on retirement
- Can entrepreneur's relief reduce your tax rate to 10%? – check the rules!



# Summary

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1. Refer to our website - [www.ellacotts.co.uk](http://www.ellacotts.co.uk)
2. Check what tax rates apply to you
3. Consider the tax-saving ideas
4. Take specialist professional advice



**Have you learned a few tricks?**

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**Questions?**



# Ellacotts LLP

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