



End of tax year check list

The end of the tax year is approaching and it is therefore time to remind your clients about making the most of their various annual allowances and exemptions for the current tax year, assuming they wish to do so. In recent issues of *Wealth Management Alert* we have focused on tax-efficient pension contributions, so in this edition we thought we would look at other ways clients can reduce their tax bills.

Make full use of inheritance tax relief

Every individual is entitled to give away assets up to the value of the annual exemption (£3,000) and make use of the small gifts exemption (£250). Transfers of any value between spouses/civil partners are exempt if the recipient is domiciled in the UK. These gifts can be surprisingly valuable and could, for instance, be used to fund a pension scheme for a child or grandchild as a third party pension contribution. However, gifts of assets other than to spouses or civil partners could incur capital gains tax.

Actions to consider for the current tax year:

Make gifts by 5 April 2011 to use:

- annual gifts exemption of £3,000 for 2010/2011 and for 2009/2010 if not already used
- small gifts exemption of up to £250 per individual recipient per tax year.

Remember that gifts out of income are not liable to IHT. There is no limit on the amount provided that, having made the gift, the donor is able to maintain their usual standard of living. As the name suggests, the gift must be made out of income and not capital – and accumulated income from earlier years is likely to be treated as capital.

Are we expecting any changes to IHT?

Not at the moment. Your clients might want to consider gifting assets directly to individuals or by executing an absolute trust, to take advantage of the current potentially exempt transfer (PET) regime.

Don't forget ISAs

It is worthwhile reminding clients about their annual ISA allowance, currently £10,200 per individual. Using this allowance each year can build a sizeable fund, with any growth being free of capital gains tax and any income received is not regarded as taxable income.

Business and agricultural property reliefs can reduce significantly the amount of inheritance tax payable. It is therefore worth reviewing succession planning with business clients and considering whether they might benefit from their relief on their death or on a lifetime gift of their business. If not, they may need to consider planning so as to take advantage of this relief or to cover potential inheritance tax bills.

Make full use of personal allowance/tax bands

Every individual, including a child, is entitled to an annual personal allowance followed by the starting and basic rate tax bands. The personal allowance plus the basic rate tax band totals £43,875 (2010/2011), above which the higher rate tax kicks in. Individuals with income above £100,000 lose their personal allowance at a rate of £1 for every £2 above £100,000.

Clients can therefore save income tax of £2,590 in 2010/2011 just by ensuring that their income does not exceed £100,000. By combining this with making full use of a spouse or civil partner's personal allowance, and starting and basic rate tax band, a couple could save tax of £12,904. Applying the same principal to the new threshold of £150,000, above which income is subject to 50% tax or 42.5% tax if it is dividend income, a couple's total tax saving for 2010/2011 could be as much as £22,724 (£976 on a starting rate tax band of £2,440, plus £10,488 on a basic rate tax band of £34,960 at 30% and £11,260 on a higher rate tax band of £112,600 at 10%.)

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Clearly, couples can transfer income-producing assets between themselves to achieve a combination that reduces their tax bills. For example, a high income couple may want to ensure that at least one of them preserves their personal allowance. Of course, any transfers must be outright with no strings attached.

Action for the current and next tax year

Investments could be transferred between spouses or civil partners to:

- make use of the basic rate bands and personal allowances of both spouses/civil partners for 2010/2011 and / or 2011/2012
- keep the income of either spouse or civil partner below the £100,000 limit and/or the £150,000 higher rate tax threshold for 2010/2011 and or 2011/2012
- for higher earners, make use of the basic and higher rate tax bands of both spouses/civil partners for 2010/2011 and/or 2011/2012.

In addition to pensions contributions – which can reduce adjusted net income considerably and which we covered in previous issues of Wealth Management Alert – your clients could consider deferring salary and bonus payments until after 5 April 2011 if they have already used their 2010/2011 allowances and basic rate tax bands. However, this is only likely to be beneficial if they expect their income to be lower in the 2011-12 tax year.

Preserve age related allowances

Individuals aged 65 and over are entitled to a higher personal allowance. The allowance for a single person is:

- £9,490 for those aged 65 to 74
- £9,640 for those aged 75 and over.

However, if the individual's adjusted net income is more than £22,900, for 2010/2011, the allowance is reduced by £1 for each £2 of excess. This reduction stops when the allowance reaches £6,475.

Your clients can save income tax of up to £633 just by ensuring their taxable income does not exceed £22,900. Married couples/civil partners are also entitled to an allowance, worth up to £697 for 2010/2011 in tax terms, if one of them was born before 6 April 1935. The married couple's/civil partner's allowance is also reduced where income exceeds £22,900.

Actions for the current tax year

Clients under the age of 75 could consider making a pension contribution before 5 April 2011.

Clients who have invested into life assurance investment bonds can top up their income by withdrawing amounts within the 5% allowance without an immediate tax charge. This will not result in a loss of age allowance.

If a client's income is already above the threshold and they are about to surrender a non-qualifying life policy, such as a life assurance investment bond, they could consider doing so before 6 April 2011. This might help them to avoid potentially jeopardising their age allowance for 2011/2012.

Actions for the next tax year

Where possible, older clients should spread income-producing assets on an outright basis between themselves and their spouse/ civil partner. They should be aware in doing this that for marriages before 5 December 2005 the married couple's allowance is reduced by using the husband's total income. For marriages/civil partnerships that took place on or after 5 December 2005, the allowance is allocated to the spouse/partner with the highest income and reduced if their income exceeds the threshold.

We would like to thank Scottish Widows for its contribution to this article.

LighthouseCarrwood advisers are experienced in working with accountants to advise clients on how they may be able to reduce their income tax bills. They are also able to advise on pension contributions and ISA investments. Please contact us to discuss how we may be able to help your clients.

LighthouseCarrwood is one of the UK's leading providers of financial planning services to professional practices. We would be delighted to work with you to help your clients reduce their tax liabilities. To discuss how we could work with your firm in a way that suits you and benefits your clients and your business, please contact:

Mark Dallas, Managing Director, on 07899 981607

Mark.Dallas@lighthousegroup.plc.uk.

www.lighthousecarrwood.co.uk