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# BUSINESS UPDATE

SPRING 2008

## Transfer of unused nil rate band to be Form - alised

Chancellor Alistair Darling announced in the Pre-Budget Report a change to the way in which the inheritance tax (IHT) nil rate band of £300,000 can be used for married couples and civil partners.

Before the introduction of this change, where an individual died and left some or all of their property to their spouse or civil partner, then that part of their estate would not be chargeable to IHT and could waste some, or all, of the nil rate band. This is because of the IHT exemption for transfers between spouses or civil partners.

The Pre-Budget change means that the proportion of any nil rate band unused on the first death may be used when the surviving spouse or civil partner dies.

This change is effectively backdated for individuals whose spouse or civil partner died before the announcement of the change, as long as the 'surviving' spouse or civil partner dies on or after 9 October 2007.

Although HMRC have now issued the relevant form IHT216 to claim the transfer of unused IHT nil rate band, they will not be able to settle any outstanding cases until the proposed legislation becomes law in the Finance Act 2008, probably in July 2008.

Please do contact us if you would like more advice on this issue.

## Income shifting - how it might affect you

The Arctic Systems case has been much talked about over recent years. The case involved a husband and wife who owned a company 50/50 and, broadly, took the profits out by way of dividends. HMRC attempted to tax the dividends solely on the husband, as he was performing most of the work which generated the profits of Arctic Systems.

Following HMRC's defeat in this case, the government has published draft legislation to prevent a tax advantage being gained through what has become known as 'income shifting'. This legislation will apply from 6 April 2008 to:

- company distributions, usually dividends, and
- profits from a partnership.

It is broadly designed to address the Arctic Systems sort of situation, where one spouse or civil partner generates most of the business profits but the other gets a proportion of the profit and saves tax into the bargain!

However, the proposed legislation is rather wider than this and refers to an individual who shifts income to another individual. To be caught by the legislation three other conditions have to apply:

- the individual who is shifting income is party to an arrangement or understanding, or can control or influence such an arrangement or an understanding
- that individual forgoes income (directly or indirectly), as it has been shifted to the other individual, and
- the individual who is shifting the income has the power to control or influence the amount of the income shifted.

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- the individual who is shifting the income has the power to control or influence the amount of the income shifted.

If these conditions are met, the individual who has shifted the income will pay the tax and any national insurance due on the income shifted.

### Situations not caught

The legislation will not apply to:

- genuine commercial arrangements
- arrangements that are the same as those that would have been entered into in dealing with an unconnected party on an arm's length basis
- general investment income, such as dividends from a plc
- situations where gaining a tax advantage is not the main or one



of the main purposes of the arrangements

- situations where, even though income has been shifted, there is no tax advantage gained.

The proposed rules are very widely drafted and will catch many owner-managed businesses involving husbands, wives and other family members, as well as businesses run by non-family members, leaving many with a substantially higher tax bill.

We will, of course, be reviewing your tax position before April. We will advise you of any necessary action which you should take to mitigate the effect of the new rules.

If you have any questions or concerns in the meantime, please do not hesitate to contact us.

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# 2008/09 allowances announced

The government has published the 2008/09 rates and allowances for income tax and National Insurance (NI).

The personal allowance for 2008/09 has been confirmed at £5,435, an increase of £210 on the current personal allowance of £5,225.

The government had already announced that it is to radically change the income tax rates for 2008/09 onwards.

- The 10% starting rate is to be abolished for earned and pensions income, and
- the 22% basic rate of tax will be reduced to 20%.

The higher rate of tax is set to continue at 40% and the starting rate will continue to be available for savings and investment income. There appear to be no changes to the tax rates applicable to dividends.

## Lower paid lose out

As the NI limits have also been announced it appears that those taxpayers who earn less than approximately £15,000 a year will be worse off in the new tax year. For an employee earning £10,000 they will be approximately £100 worse off. This is because the benefit of the reduction in the basic rate of tax from 22% to 20% is outweighed by the unavailability of the 10% band on their earned income.

## What about those on higher salaries?

HMRC had previously announced increases in the earnings limit on which employees pay 11% NI. The regulations confirm that 11% NI will be due on pay between £105 and £770 a week. Until the income tax higher rate limit (the amount of taxable income an individual can receive before paying tax at 40%) is announced, it is impossible to fully calculate the affect on higher earners.



## The rising cost of fuel for company cars

The employer provided car remains a popular benefit in kind and still has status with employees. If fuel is provided in addition to the car, there is an additional benefit.

Since the introduction of the CO<sub>2</sub> emissions based system several years ago, the car fuel benefit has been calculated by taking a percentage, linked to the car's CO<sub>2</sub> emissions, and applying this to a multiplier, which has been set at £14,400.

It was announced in the Pre-Budget Report that this multiplier will rise to **£16,900** from 6 April 2008. This rise, combined with an increase in the percentages which are derived from CO<sub>2</sub> emissions, will result in a significant increase in the benefit in kind charge for the employees concerned.

### What is the extra cost?

Alistair is provided with a company car and fuel for 2007/08. The car has CO<sub>2</sub> emissions of 209g/km and a petrol engine.

For this car the appropriate percentage is 28%. The cash equivalent of the fuel benefit is £4,032 (£14,400 x 28%). If Alistair pays tax at 40% then the cost to him will be £1,612.

Under the new rules for 2008/09, the CO<sub>2</sub> emissions percentage increases to 29%. When this percentage is applied to the new multiplier of £16,900, the car fuel benefit increases to £4,901 (£16,900 x 29%). The tax payable by Alistair at 40% will increase to £1,960!

### Extra employer costs

The employer's Class 1A National Insurance (NI), based on the taxable benefit, will also increase. Employers pay a NI charge of 12.8% on broadly all benefits in kind. So in Alistair's case the employer's NI cost will increase from £516 to £627.

### So should employers stop paying for private fuel?

In order to make a car fuel benefit financially worthwhile, private mileage will need to be substantial. Whilst every employee's computation will vary, due to differing levels of benefit, fuel costs and fuel consumption, as a general rule an employee would need to be travelling at least 10,000-12,000 **private** miles per year to make the benefit efficient.

### An alternative?

With such large increases, thought needs to be given by employers and employees as to whether the employee would be better off if they provided their own fuel and claimed a mileage allowance from their employer for business travel.

HMRC publish rates which can be used to reimburse employees tax free for business miles in a company car. The rates for journeys undertaken from 1 January 2008 are as follows:

Engine size	Petrol	Diesel	LPG
1400cc or less	11p	11p	7p
1401cc - 2000cc	13p	11p	8p
Over 2000cc	19p	14p	11p

With large increases in the car fuel benefit from April 2008, employers and employees should consider their positions. Please contact us if you would like to discuss this issue further.

# New anti-money laundering legislation

You may recall the introduction of the Money Laundering Regulations 2003, which generally came into effect on 1 March 2004. Certainly those who were caught by any of the new anti-money laundering legislation will! This included accountants, auditors, tax advisers, estate agents, legal advisers, insolvency practitioners and casino operators.

Dealers in high value goods who accept large cash payments will also remember their introduction, as new anti-money laundering systems had to be implemented. In general these systems included:

- confirming the identity of new clients
- appointing a nominated officer to whom money laundering reports had to be made
- establishing systems and procedures to forestall and prevent money laundering
- providing relevant individuals within the business with anti-money laundering training.

## Practical effects

If you were outside of what became known as the 'regulated sector', you may have noticed that you have increasingly been required to provide proof of your identity when dealing with those affected.

With effect from 15 December 2007 the Money Laundering Regulations 2003 were replaced by the Money Laundering Regulations 2007, in response to new European Union legislation. You may again notice a few procedural changes in your dealings with those businesses affected by the regulations such as ourselves.

For example the previous rules did not always require those affected to obtain proof of the identity of their existing clients. The new regulations require this as part of what is now known as 'Customer Due Diligence' (CDD).

CDD must be applied to all customers or clients of affected businesses, whether they are new or have been clients for a number of years. Of course, if you have been a client for a number of years it may be that the business already has sufficient information to satisfy the legal requirements in this area.

Where relevant the identity of 'beneficial owners' must also be known and proof of their identity may also be required. For example an accountant or lawyer dealing with

a trust may now need to make further enquiries about the individual beneficiaries of that trust.

Should we require any further information from you in respect of the new regulations we will be in touch through your usual contact.



## Sponsorship or just paying for a hobby?

A tax case has ruled in favour of a coach hire business claiming advertising expenditure and capital allowances on expenses incurred whilst sponsoring the business owner as he took part in motor rallying events.

The facts of the case were that Mr McQueen had held a long term interest in motor sport and had also enjoyed a degree of success during that time. Mr McQueen was a successful driver and saw no need to sponsor an independent driver. He believed that, by sponsoring his car in rally events, this would help to aid the advancement of the business, securing new clients and revenues by increasing public awareness.

HMRC tried to contend that the costs were not incurred wholly and exclusively for the trade and therefore should not be deductible against the taxable business profits. However the decision went in favour of Mr McQueen on the basis that the personal satisfaction he had obtained was incidental to the benefits obtained by the business. Consequently, all the costs were allowable.

Some of the key facts of the case were:

- the use of the business livery and lettering on the rally cars
- the wide scale sponsorship of events
- events were used to entertain customers
- the publicity, both newspaper and television
- the cars were displayed daily outside the business premises.

Although the case demonstrates the deductibility of sponsorship expenditure for this particular business, it does not mean that any business can necessarily claim similar costs. This would depend on the facts of each case. To be successful in obtaining a tax deduction a supportable business case needs to be made. A business would need appropriate evidence to demonstrate that the expenditure is being incurred for business purposes and not just paying the costs of a personal hobby.



## 2-4-6 cheque clearance

At the end of last year the major banks introduced the 2-4-6 changes which set a maximum time limit of two, four and six working days for each of the stages after paying in a cheque to current or basic bank accounts. The changes also cover bankers' drafts, bankers' cheques and building society cheques.

### What are the benefits for businesses?

These changes should increase clarity and certainty when paying in cheques to a bank or building society account. After paying in a cheque, at the end of six working days, you can be confident the money has safely cleared. You are protected from any loss if the cheque subsequently bounces, unless you were knowingly party to a fraud.

### Example

Steve runs a sandwich delivery business and only accepts cash or cheques as payment. He collects all cheques made out to his business for the week and pays them into his bank on Monday morning.

His business account starts to earn interest on the money on Wednesday (after two days), and by Friday morning (after four days) the bank will allow him to withdraw the money from the deposited cheques from the account, even though the cheques could still bounce.

By the end of the following Tuesday (after six days), he can be certain that the cheques will not bounce and the money from them cannot be reclaimed from the business account without his consent.

To explain the changes, the Cheque and Credit Clearing Company and APACS, the UK payments association, have issued guidance for individuals and businesses. Visit [www.chequeandcredit.co.uk](http://www.chequeandcredit.co.uk) and [www.apacs.org.uk](http://www.apacs.org.uk) for more information.

## Companies Act 2006 update

The ongoing implementation of the new Companies Act 2006 (the Act) continues and at the time of going to print five commencement orders, which bring the provisions of the new Act into force, had been published. The government has also announced that the final implementation date for all of the Act's provisions will now be October 2009, rather than October 2008 as previously announced. The reason for the delay relates to the need to ensure that the necessary changes to the systems and processes at Companies House are in place in time.

The next important implementation date for the new Act is 6 April 2008 when, amongst other sections, the new rules that relate to audit, accounts and reports will be introduced. These will generally apply to accounting periods ending on or after 6 April 2008, meaning that April 2009 year ends onwards will be the first to be affected for most. We will take a closer look at the changes you can expect to see in your financial statements in future editions.

### Small and medium-sized company limits to increase

At the time of going to print draft legislation had been published which proposes to increase the financial limits that determine whether a company or group qualifies as small or medium-sized,

and also for audit exemption. For example, the turnover limit in order to qualify for audit exemption is expected to rise from £5.6 million to £6.5 million and the balance sheet total from £2.8 million to £3.26 million.

### Late filing penalties

The government has also put forward proposals to revise the late filing penalty regime and introduce additional fines for those who persistently file their accounts late. The penalties have not been increased since their introduction in 1992. The increases take account of both inflation as well as accelerated increases for persistent offenders. A private company that files its accounts between six and twelve months late can expect the penalty to rise from £500 to £1,500 from 1 February 2009. Where the accounts were also filed late in the previous year the relevant penalty will be doubled once accounts are filed under the new legislation.

It had already been announced that the filing deadline for private company accounts will be reduced from ten to nine months and from seven to six months for public companies. These new deadlines will apply to accounting periods beginning on or after 6 April 2008.

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Tax is a subject that excites very few people. It is easy to ignore awkward issues involving tax, such as those mentioned in this newsletter. Don't - it could cost you dear. Instead, think of a regular review of your tax affairs (at least once a year) as an opportunity to reduce the taxman's take from your family.

The period leading up to the end of the tax year on 5 April is one of the best times to review your taxes and finances.

In this newsletter we summarise the more important year end tax tips to help you identify areas that should be considered. As always we would be delighted to discuss with you the issues involved and any appropriate action you may need to take.

## Income tax saving ideas for all the family

### Married couples

Consider the split of income between husband and wife. A transfer of assets (which must be outright and unconditional) may serve to redistribute income and reduce or eliminate higher rate tax liabilities. For example it may be possible to save nearly £9,000 a year by moving £40,000 of savings income from an income-rich spouse to one with no income. This level of tax saving is unlikely to be possible for many but significant savings can be made by much smaller transfers of income. Moving just £1,000 of savings income from a higher rate taxpaying spouse to one with income below the personal allowance (£5,225) may save £400 a year.

The tax treatment of married couples applies to same-sex couples who have entered into a civil partnership under the Civil Partnership Act. References to husband and wife should therefore be read to include civil partners throughout this supplement.

Income arising from assets owned jointly but in unequal shares is automatically taxed in equal shares unless a declaration is made to HMRC stating that the asset is owned in unequal shares. This election can be made on a Form 17 but must be made before the income arises.

Consider such a declaration when a new jointly owned asset is acquired. The exception to the equal splitting rule is dividend income from jointly owned shares in 'close' companies which is split according to the actual ownership of the shares. Close companies are broadly those owned by the directors or five or fewer people.

level of remuneration must be justifiable and payment of the wages must actually be made to the spouse. The National Minimum Wage rules may also impact.

Care must be taken as HMRC are about to legislate against 'income shifting'. The legislation is designed to stop a tax advantage being obtained by diverting income under non-commercial arrangements. The new rules will apply from 6 April 2008.

### Children

Parents must remember that their children are also potentially within the tax system. It may be possible to utilise the children's personal allowances and starting/basic rate tax bands. However if income arising to a child but deriving from a parent exceeds £100 gross a year it will be taxed on the parent while the child is unmarried and under 18. This rule applies to income arising from outright gifts made by parents as well as to income from trusts set up by parents.

National Savings Children's Bonus Bonds (for children under 16) are a means by which parents can provide capital for their children and which earn tax-free interest.

Income tax savings may be made if you are self-employed. Your spouse could be taken into partnership or employed by the business. This could be just as relevant for a property investment business producing rental income as for a trade or profession.

A spouse could be employed by the family company. However the



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For children born since September 2002 a Child Trust Fund (CTF) has been introduced. The idea is to encourage tax efficient savings by family and friends and, with the government's help, to build a nest egg which the child can access once he or she reaches age 18. The government's initial contribution amounts to £250 (£500 for low income families) with further payments promised once the child reaches age seven. Other contributions of up to £1,200 per annum can be added to the fund and although there is no tax relief on making the contributions the fund is tax exempt.

Income to use the child's personal allowance could be provided by:

- income derived from capital provided by relatives other than parents (grandparents, uncles, aunts etc)
- distributions from family trusts (set up by relatives other than parents)
- employing teenage children in the family business - remember there is now a National Minimum Wage of £3.40 per hour for 16 and 17 year olds.

Dividend income is not an effective way to utilise the personal allowance - the tax credits are not repayable. Ensure other sources of income are available to use the allowance.

**And for those over 65**

Taxpayers aged 65 and over are able to claim higher personal allowances. The benefit of these allowances is eroded where income exceeds £20,900. In such circumstances a move to capital growth or tax-free investments may preserve the higher personal allowances.



# Deadlines looming for employers

Ignore them at your peril! Remember that in most instances interest will be charged on tax paid late and penalties can be levied if forms are late or incorrect.

**19 April 2008** - Interest will run on any 2007/08 PAYE and NIC deductions not paid over by this date (22nd for electronic payments).

**19 May 2008** - Employers' year end returns (P35 and P14) due for submission.

**31 May 2008** - Employees must be provided with their P60 (certificate of pay and tax deducted).

**6 July 2008** - Submission of P11Ds and P9Ds

returning details of expenses paid and benefits provided to employees and directors. A copy of the P11D/P9D must also be given to each employee.

A dispensation, allowing certain items to be omitted from the forms, can be granted by HMRC.

**19 July 2008** - Class 1A NIC for 2007/08 on most benefits in kind provided to employees must be paid. Interest runs from this date on late payments.

**19 October 2008** - PAYE settlement agreement liabilities for 2007/08 due, together with Class 1B NIC (22nd for electronic payments).



## Electronic filing and payment

All employers with at least 50 employees must file their end of year returns electronically. Employers with fewer than 50 employees do not have to start online filing until 2009/10 but there are tax-free incentives for early take up. Large employers (those with at least 250 employees) must also pay their PAYE electronically.

Contact us if you would like help with your payroll procedures.

## National insurance issues

### Entitlement to a state pension

Where a spouse is employed by the family business, the earnings are often kept below the national insurance threshold to avoid payment of contributions.

For 2007/08 it is worth paying earnings of between £87 (the lower earnings limit) and £100 (the earnings threshold) per week. There will be no employers' or employees' contributions due on the earnings but entitlement to a state retirement pension and certain other benefits is preserved. Note that the limits will be £90 and £105 per week in 2008/09. A PAYE scheme would be needed to establish the employee's entitlement to benefits.

### Small earnings exemption

For the self-employed there is a requirement to pay a flat rate contribution (Class 2). If your profits are low you can apply for exemption. The limit for 2007/08 is £4,635. If contributions have been paid for 2007/08 and it subsequently turns out that earnings are below £4,635 a claim for repayment of contributions can be made. The deadline for this claim is 31 December 2008. On the other hand it may be advisable to pay the contributions in any event in order to maintain a contributions record as they are only £2.20 a week. The alternative voluntary Class 3 contributions are £5.60 a week higher.

## Employers' action points

Contact us if:

- you have any concerns over the accuracy or completeness of your PAYE records
- electronic filing of year end returns
- you need assistance with the completion of P11Ds or application for a dispensation.

Have you thought about:

- a PAYE settlement agreement as a useful way to account for tax on minor benefits provided to employees
- obtaining a dispensation.

# Capital gains tax - could you benefit from planning ahead?

Each individual has an annual exemption of £9,200 for Capital Gains Tax (CGT) purposes. Review your chargeable assets and consider selling before 6 April 2008 to utilise the exemption. Note that husband and wife both have their own annual exemption. A transfer of assets between them may mean they can both make gains of £9,200 tax-free. Bed and breakfasting (sale and re-purchase overnight) of shares is no longer tax-effective. However sale by one spouse and repurchase by the other, or sale outside an ISA and repurchase inside, can achieve the same effect. This can be done either to utilise the annual exemption or to establish a capital loss to set against gains.

Children also have their own annual exemption and this may be utilised by investing for capital growth.

Traded or 'second hand' endowment policies (SHEPs) can also produce gains to utilise the annual exemption. An unwanted policy is acquired and paid to maturity. On maturity, the proceeds payable less the acquisition cost and premiums paid creates a capital gain.

Careful planning could lead to £9,200 of gain

per family member being realised every year tax-free.

The government has announced that the system of CGT will be radically changed from 6 April 2008.

The changes include

- the abolition of CGT taper relief and indexation
- the introduction of a flat rate of CGT of 18%, and
- proposals to introduce an entrepreneurs' relief giving an effective 10% tax rate on the first £1 million of qualifying gains.

Capital gains can be deferred by investing via the Enterprise Investment Scheme (EIS).

If you have two homes you may be able to make elections to maximise the 'main residence' exemption. Talk to us if you use more than one property as a residence.



Remember that capital losses can be established by making a claim where assets no longer have any value - a 'negligible value' claim.

## Family companies - maximising the potential, minimising the extraction costs

A director/shareholder of a family company can extract profits from the company in a number of ways. The two most common are by way of bonus or dividend. For every £1,500 net paid to the higher rate taxpaying individual, the cost to the company is £2,000 if a dividend

is paid and £2,294 if a bonus is paid. This assumes the company is liable to corporation tax on its profits at the small companies rate of 20%. There are many issues to consider in making the decision but paying a dividend can often result in significant tax savings.

If the payment of bonuses to directors or dividends to shareholders is contemplated, careful thought must be given as to whether payment should be made before or after the end of the tax year. This will affect the payment date for any tax and may

affect the rate at which it is payable. Remember that any bonuses must be paid within nine months of the company's year end to ensure tax relief for the company in that period.

## Charity watch - making the most of giving

To encourage charitable donations, the government has created a number of ways of securing tax relief on charitable donations.

**Example 1** - Alex makes a one-off donation under Gift Aid. The scheme potentially applies to any charitable donation large or small, whether regular or one-off. The charity is able to claim basic rate tax (currently at 22%) back from HMRC. As a higher rate taxpayer Alex will also qualify for 40% tax relief on the gift. Tax relief against 2007/08 income is possible for charitable donations made between 6 April 2008 and 31 January 2009 providing the payment is made before filing the 2007/2008 tax return.

**Example 2** - Ben agrees to a regular deduction from his salary under the Payroll Giving scheme. There is no upper limit on the amount that can be

donated in this way. His tax bill is reduced as his PAYE liability is calculated after deducting the charitable donation.

**Example 3** - Camilla decides to leave a substantial bequest to charity in her Will. This saves inheritance tax at 40%.

**Example 4** - David gives some quoted shares to a charity, on which there is a substantial unrealised capital gain. However no CGT arises on a gift to a charity. The charity can then sell the shares free of CGT providing it applies the proceeds for charitable purposes. Furthermore income tax relief is available to David on the value of the shares gifted, so there is a double-deal of tax relief. The same rules apply to gifts of land and buildings.

## Benefits for employees

Much of the planning for employment income (including directors' remuneration) focuses on the provision of tax efficient benefits. However most taxable benefits in kind give rise to employers' (but not employees') national insurance.

Note that the tax paid by employees and directors, and the national insurance employers pay on fuel provided for private travel, increases by more than 17% with effect from 6 April 2008. To discuss remuneration packages and the provision of benefits further, please contact us.



# Pensions - plan ahead

## - don't take a chance on your future!

There are many opportunities for pension planning but the rules can be complicated. Furthermore the rules on the taxation of pensions changed very significantly in April 2006. The rules include a single lifetime limit (£1.6 million in 2007/08) on the amount of pension saving that can benefit from tax relief. This lifetime limit is measured when pension benefits are taken. There is also an annual limit on the maximum level of pension contributions (£225,000 for 2007/08, £235,000 for next year).

Pensions have received a particularly bad press in recent times for a variety of reasons. However the tax relief on pension

contributions, still at 40% for a higher rate taxpayer, is attractive. Pension planning therefore forms an important part of a year end tax planning review.

The self-employed or those in non-pensionable employment obtain tax relief for payments under personal pension contracts. Individuals can obtain tax relief on contributions up to £3,600 (gross) per year with no link to earnings. This makes it possible for non-earning spouses and children to make contributions to pension schemes. Further contributions can be made up to 100% of earnings, generally referred to as net relevant earnings.

Different rules apply to those paying old style 'retirement annuity premiums' under policies that started before 1 August 1988.

Family company directors should consider making additional employer contributions to existing company pension schemes. If a spouse is employed by the company, consider including them in the company pension scheme or setting up such a scheme for the purpose. Even where salary levels are modest, such a scheme can provide significant benefits, but as a result HMRC are keeping an eye out for unusual or 'excessive' contributions.

## Using tax efficient investments

Some investments benefit from a favourable tax status. We consider the main ones below. Any investment decision should involve consideration of all the relevant factors, including the risk level and the need for income and capital in both the short and long term, as well as the tax advantages.

### Individual Savings Accounts

Individual Savings Accounts (ISAs) provide an income tax and capital gains tax free form of investment. The maximum investment limits are set for tax years. Therefore to take advantage of the limits available for 2007/08 the investment(s) must be made by 5 April 2008. You can invest either in a maxi ISA or mini ISAs. The maxi ISA route gives you the option to invest up to £7,000 (per tax year) either fully in stocks and shares or up to £3,000 in cash with the balance in stocks and shares. Under the mini ISA route, up to

£4,000 can be invested in stocks and shares and up to £3,000 in cash. 16 and 17 year olds are able to open (mini) cash ISAs.

### Other investments

There is a wide range of **National Savings products**, eg NSB savings accounts, savings certificates and bonds. These are taxed in a variety of ways. Some, such as National Savings Certificates, are tax-free.

For those whose income may fall in the future, for example due to retirement, investments deferring income to a subsequent period may be attractive. For example

**single premium life assurance bonds** and **'roll-up' funds** can achieve this effect.

The **Enterprise Investment Scheme (EIS)** allows new equity investment of up to £400,000 in any tax year in qualifying unquoted trading companies (including AIM). Income tax relief at 20% is available on the investment and capital gains tax exemption is given for shares held for at least three years.

Furthermore unlimited capital gains realised on the sale of any chargeable asset (including quoted shares, holiday homes etc) may be deferred by reinvestment in EIS

shares. An added benefit is that after two years of ownership EIS shares will qualify for business property relief for inheritance tax purposes.

A **Venture Capital Trust (VCT)** invests in the shares of unquoted trading companies. An investor in the shares of a VCT will be exempt from tax on dividends (although the tax credits are not repayable) and on any capital gains arising from disposal of the shares. Income tax relief, currently at 30%, is available on subscriptions for VCT shares, up to £200,000 per tax year, if the shares are held for at least five years.

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