



## private client | year end tax planning

### team



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It's that time of year again. You have just breathed a sigh of relief having submitted your 2009/10 tax return to HMRC. But the end of the 2010/11 tax year is nearly on us. Have you taken stock of your personal tax situation and considered the various reliefs and tax-efficient investment opportunities available? With all the changes to the pensions regime in the past couple of years, are you sure you understand what you can now contribute? If the answer to any of these questions is "no" then this year end personal tax prompt will hopefully give you something to think about.

We start by reminding you of some of the more simple year end planning opportunities and then move on to talk about some investment and pension issues. Remember though, that there is a close interaction between investment strategy and taxation, and therefore before considering any tax efficient investment you should consult your tax advisor.

Please contact either your usual haysmacintyre contact or me if you would like to discuss any of the ideas further. Together with our colleagues in Epoch Wealth Management LLP (Epoch wm) we can help you take whatever steps you need before 5 April.

### Andrew Jupp – Head of Tax

#### income tax

- with the top rate of income tax now at 50% it is more important than ever to try and mitigate this
- consider equalising income between you and your spouse to minimise the income taxed at 50%
- if you have income in excess of £112,950 you will no longer have a personal allowance. Where earnings are between £100,000 and £112,950 the allowance is tapered, reducing by £1 for every £2 of income over £100,000. This means there is an effective marginal rate of tax of 60%. One way to mitigate this is to make a payment under Gift Aid

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- if you have a furnished holiday letting the rules have changed. You should talk to us about this as soon as possible. The minimum period a furnished holiday letting must be available for letting is increased from 140 to 210 days a year and the period it is actually let is increased from 70 days to 105 days a year

### inheritance tax

- the inheritance tax (IHT) annual exemption of £3,000 on individual gifts can be carried forward for one tax year. So if you have not used the exemption this year or last year you could make a gift of up to £6,000 free from IHT
- gifts of £250 to individuals are also exempt
- gifts made during your lifetime are usually potentially exempt transfers (PETs) and providing you survive seven years from the making of the gift, the gift falls out of your estate for IHT purposes
- ensure that you have a Will, that it leaves your estate to those you intend, and that it is tax efficient

### capital gains tax

- the capital gains tax (CGT) annual exemption is currently £10,100 and must be utilised by 5 April 2011 otherwise it will be lost
- the tax on capital gains is either 18% or 28% depending on your marginal rate of tax
- consider whether you have any brought forward capital losses that could be offset against current year gains
- if you hold shares in a company, you may qualify for Entrepreneurs' Relief, which potentially allows up to £5million of gains to be taxable at only 10%
- if you have more than one property, consider which should be deemed to be your principal private residence (PPR) and therefore exempt from CGT

### venture capital trust

#### the opportunity

- a chance to invest from £5,000 to £200,000 and generate tax relief of 30% on your gross investment

#### how does it work?

- £100,000 investment may generate income tax relief in the year of contribution of 30%. Income tax relief cannot exceed income tax paid
- your investment must be held for at least five years or the tax relief will be reclaimed from HM Revenue and Customs (HMRC)
- all dividends and capital gains from VCTs are paid with no further liability to tax

#### why should you talk to our colleagues in Epoch wm?

- VCTs are **not** suitable for every investor and you must pay due regard to your attitude to risk, timescales for investing and other planning that you have already done which might affect your ability to use this investment tax efficiently

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- Epoch wm can help you through the process of deciding whether the investment is suitable for you and which particular company you should choose to manage your VCT investment

This investment could go down as well as up in value. Consequently, you could lose some or all of your money.

VCTs can be illiquid and in some circumstances it may be difficult to sell them at any price.

VCTs are quoted on the stock exchange; however the underlying investments may not be. Unquoted investments carry a higher risk than quoted investments and it may be difficult to obtain valuations of the assets.

### Enterprise Investment Scheme (EIS)

Invest up to £500,000 and generate the following tax benefits:

- 20% upfront income tax relief meaning that a £100,000 investment costs £80,000
- potential to defer the capital gains tax payable on other investments made
- relief from inheritance tax in two years
- tax free capital growth
- loss relief

These investments can involve varying degrees of risk and as such, they are not suitable for everybody and advice should be taken from an authorised firm like Epoch wm before investing in this type of investment.

### pensions

Have you ignored pensions in recent years due to:

- confusing rules on what you are allowed to save into pensions?
- poor fund performance?
- concern over having to leave your pension fund to a pension annuity company or the government?

Do you have a sensible alternative plan to provide for your retirement?

### the opportunity

- the rules on pension contributions are becoming more straightforward!
- all pension savers will be able to save up to £50,000 and get tax relief at their marginal rate, provided draft legislation is passed in April
- this means that for a 50% tax payer you will be able to save £50,000 in your pension for a net cost of £25,000. Assuming that the rules remain in place, over the next 10 years a 50% income tax payer could build up a pension fund of nearly £700,000 for a net cost of £250,000
- increased competition in the pension market has led to reduced costs and more choice for the consumer meaning that a review of your pension could save you money and improve your investment returns
- the rules on how you can take your benefits are being relaxed which will make accessing the money you have saved easier and more flexible

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### why you should talk to Epoch wm?

- flexibility is only good if you know how to use it to your advantage – they can help you find the right investments for your personal situation and build a bespoke financial plan to help you meet your lifetime financial planning goals

The value of your pension plan can fall as well as rise in value and you may not get back the full amount of your investment.

The earliest that you can withdraw benefits is age 55. On retirement you can take a maximum of 25% of the fund value as a pension commencement lump sum. Income from your pension will be taxed at your marginal rate.

The benefits that you receive at retirement are dependent upon future contribution levels, the age at which you take your benefits and external influences such as investment returns, current legislation, inflation, investment rates, annuity rates and charges, all of which are subject to change.

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### ISAs

In 2010 the annual allowance for ISA investments increased from £7,200 to £10,200. It is set to increase again to £10,680 from April this year. With the government increasing virtually all forms of taxation, you should be taking advantage of every allowance possible.

You don't need to tie your money up or take high levels of risk when investing into an ISA. There is a vast choice of underlying investments which vary in their risk and accessibility. Furthermore, you can switch existing ISAs in the future into more appropriate underlying investments should your circumstances change.

Some people have considered ISAs to be "small beer" and feel that the tax breaks don't really offer sufficient benefits to warrant the hassle and paperwork. This should not be the case. Investing in an ISA annually can produce a very substantial investment return

We work closely with Epoch wm who will be very happy to advise you on the most appropriate ISAs for new investments and will offer a review of your existing arrangements.

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## about haysmacintyre

**haysmacintyre, Chartered Accountants and tax advisers, comprises 24 partners and 160 staff based in Holborn, London. It provides high quality auditing and assurance, business and personal taxation, corporate finance, financial planning and other business support services.**

**Around 50% of the firm's business is within the corporate sector – small and medium sized enterprises, many of which are in the property, media and entertainment, technology, sports and business services sectors. The firm acts for a number of listed companies and assists new companies raise initial funds on the capital markets and through private equity. 35% of the firm's business is for charitable and not for profit organisations and the remainder is for professional practices and private individuals – whether senior executives, entrepreneurs or those with significant land or wealth at home or overseas.**

**haysmacintyre is a founding member of MSI Global Alliance (MSI), an international alliance of independent legal and accounting firms, with 250 members in 100 countries.**

## Epoch wealth management

**Epoch wealth management offers a full spectrum of financial planning services ranging from pensions, investments, portfolio construction and protection for high net worth individuals, corporate clients, trusts and charities. The aim of our service is to ensure that you have a financial plan to make the most of your money and help you meet your individual, corporate or charitable planning goals. Epoch wealth management is a trading style of positive solutions, authorised and regulated by the financial services authority, FSA number 184591.**



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