



Last Minute Tax Planning!

Further to the budget on 22nd March, there is still time to instigate some last gasp tax planning. However you only have until 5 April 2006 to act.



With less than 2 weeks 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 2006. Otherwise these opportunities may be lost (in some cases permanently).

If you are at all uncertain if the ideas we suggest 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 Allowances for small businesses/companies

The rate of first-year capital allowances for small businesses spending on most plant and machinery has been increased from 40% to 50% in the Budget. This will apply for all qualifying purchases made in the period 1 April 2006 to 31 March 2007. If you have any imminent qualifying purchases, making them between 1 and 5 April 2006 may increase your tax relief (assuming your year end is 31 March or 5 April).



Home Computer Initiatives

If you were planning to participate in this scheme, which effectively allows employers to lend computers to their staff "tax free" (subject to certain conditions), you will need to act fast. The 2006 Budget announce an end to this incentive with effect from 5 April 2006. Employees who have signed up on or before 5 April 2006 will still qualify for the tax relief.

Hillier Hopkins LLP (Aylesbury)

2a Alton House Office Park
Gatehouse Way
Aylesbury
Bucks
HP19 8YF
T 01296 484831
F 01296 437157
DX 4154 Aylesbury

Hillier Hopkins LLP (Hemel Hempstead)

Charter Court
Midland Road
Hemel Hempstead
Herts
HP2 5GE
T 01442 269341
F 01442 219517
DX 8810 Hemel Hempstead 1

Hillier Hopkins LLP (Watford)

St Martin's House
31-35 Clarendon Road
Watford
Herts
WD17 1JF
T 01923 232938
F 01923 817159
DX 51522 Watford 2

www.hillierhopkins.co.uk

info@hllp.co.uk

Venture Capital Trusts (VCT)

For shares issued on or before 5 April 2006, income tax relief on investments in qualifying VCTs is given at 40% for investments up to £200,000 per tax year. 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.

Shares issued in a VCT on or after 6 April 2006 will qualify for income tax relief at 30% and will need to be held for a period of 5 years to secure the 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.

Capital Gains Tax (CGT)

Every individual is allowed an annual exemption - £8,500 – which is CGT free (this increases to £8,800 for 2006/07).



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 £8,500 each so you can make a chargeable gain of £17,000 (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.

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Pension Contributions

A few planning ideas to consider depending on the type of plan you are contributing to pre A DAY (6 April 2006):

Retirement Annuity Plans - it is possible to carry back all retirement annuity payments made during 2005-2006 to the previous tax year. This may be beneficial if you were a higher rate taxpayer last year (2004-05) but are unlikely to be this year (this may almost double your tax relief!). Payments must be made by 5 April 2006 as "carry back" is abolished on 6 April 2006 (A Day).



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. This is no longer available. If you have the funds available now for "mopping up" the relief for 2005/06, then making a contribution by 5 April 2006 (where you are a higher rate taxpayer) will reduce your balancing payment of tax due by 31 January 2007 and will also reduce your 2006/07 payments on account – a potential cash flow advantage for January and July 2007.

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; or A Day, please do contact us.

Inheritance Tax (IHT)

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

Make sure you take advantage of the following annual IHT gift exemptions.

The cheque must clear your bank account by 5th April 2006.

- 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. Alternatively, please call us on 01442 220788 to speak to one of our advisers.

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