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Tips for reducing tax liability, from the experts

101 Ways to Pay Less Tax

2009/2010
TAX YEAR

H.M.Williams Chartered Accountants
Best UK Tax Team Winner

This is an excerpt from Lawpack's book *101 Ways to Pay Less Tax*.

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101 Ways to Pay Less Tax

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Capital Gains Tax

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Make use of the Capital Gains Tax changes

The Chancellor, Alistair Darling, has abolished indexation and taper relief and replaced these with a flat rate of 18 per cent for gains in excess of the annual exemption. This has greatly simplified the Capital Gains Tax legislation which became more and more complicated during Gordon Brown's time as Chancellor.

All you have to do now, to work out your gain, is to take the sale proceeds less any costs of sale, deduct the original cost or market value in 1982, deduct the cost of any improvements and you have the chargeable gain. Amongst those benefiting from the 18 per cent rate will be buy-to-let investors and short-term stock market investors.



Make use of the annual Capital Gains Tax exemption (1)

In 2009/10 the Capital Gains Tax annual exemption is £10,100. If you can structure your financial affairs to give you gains each year that don't exceed this figure, you effectively have extra tax-free income. Investments giving rise to gains are most frequently unit trusts and shares, although those held in ISAs and investments in government gilts don't have any capital gains liability.

While most people accept that investments of this type can go down as well as up, if you make investments through an authorised adviser and you suffer a loss because of poor advice, poor investment management or the adviser going out of business, there is a Financial Services Compensation Scheme, which can pay compensation of up to £48,000 – for more information, visit its website at www.fscs.org.uk.



Make use of the annual Capital Gains Tax exemption (2)

Assets transferred between spouses are exempt and each spouse is entitled to the exempt amount of £10,100 (2009/10 figure).

If there will be tax to pay, consider transferring the asset to the non-taxpaying spouse.

Transfers between spouses followed by a sale could be attacked by HM Revenue & Customs (HMRC) as an anti-avoidance measure, so there should be a delay between the transfer and the subsequent sale. There should be no strings attached to the gift whatsoever, particularly something which might result in the eventual proceeds going back to the transferor.



Don't overlook claiming relief for shares that are now worthless

If you have tax to pay, check to see if you or your spouse have shares in companies that are now worthless. If you do, whatever those shares cost will equal a loss which can be offset against gains. Remember to transfer the shares to the spouse who has the gain first.



Entrepreneurs' relief

If you sell your business, you may be entitled to entrepreneurs' relief. This gives preferential treatment to the disposal of business assets. This includes trading businesses either carried alone or in partnership, assets of that business, shares in the individual's own trading company and assets owned by the individual but used in their trading company or business. The relief reduces the amount of the gain chargeable to tax by 4/9ths, so that when the resulting gain is charged to tax at 18 per cent it's equivalent to ten per cent on the whole of the gain.

There is a lifetime limit of £1m upon which the entrepreneurs' relief can be claimed and claims can be made on more than one occasion to utilise the lifetime limit. The business must have been owned for at least one year ending on the date of the disposal.

Furnished holiday letting properties are also regarded as business assets, but not properties used for any other type of letting. However, please be aware that this favourable tax treatment is due to end on 5 April 2010. To qualify as furnished holiday letting, the property must:

- be available as holiday accommodation for at least 140 days in a tax year; and
- be let on a commercial basis for at least 70 days; and
- not be occupied for more than 31 days by the same person in any period of seven months.

Despite a degree of simplification, this can still be a complex area and professional advice should be taken.



Assets you can sell without incurring Capital Gains Tax

You can sell chattels such as jewellery, pictures and furniture where the proceeds are £6,000 or less without incurring Capital Gains Tax. Please note that if you sell, say, a set of chairs for more than £6,000, you cannot claim this as being free from Capital Gains Tax on the basis that each individual chair was sold for less than £6,000. HMRC looks at the set as being the item, not the individual items themselves. Other assets you can sell (or gains you can make) without incurring Capital Gains Tax are:

- Private motor vehicles
- Your own home (but not including a second home)
- National Savings Certificates
- Foreign currency
- Some gold coins (take advice)
- Decorations for gallantry (unless purchased)
- Betting winnings (including pools, lotteries and Premium Bonds)
- Compensation or damages for any wrong or injury suffered
- British Government Securities
- Life assurance policies and deferred annuities
- Chattels (i.e. movable possessions) sold for £6,000 or less
- Assets given to a charity or the nation

- Enterprise Investment Scheme shares held for three years
- Timber and uncut trees
- Individual Savings Accounts
- Venture Capital Trust shares held for five years
- Guns, wine, antiques – providing they are not used in a business
- Debts
- Qualifying Corporate Bonds
- Child Trust Funds



Suggestions for investments with tax advantages

While it's not our business to suggest individual investments, the following investments have certain tax advantages:

- **National Savings Certificates**
- **Children's Bonus Bonds:** these are high-interest savings schemes for children under the age of 16. You can get a brochure at any post office and both the interest and the bonus are tax free.
- **Child Trust Funds:** the government give £250 to start off and up to £1,200 can be added each year until the age of 18. The government contributes a further £250 at the age of seven. The government contributions are higher for lower income earners.
- **Enterprise Investment Scheme:** if you invest in this, Income Tax relief is given at 20 per cent up to £500,000 invested in any year. The gains are free of Capital Gains Tax. The shares must be held for at least three years. There are other rules concerning the Enterprise Investment Scheme but these are the most important ones.
- **Venture Capital Trusts:** investors are exempt from tax on dividends so long as the shares purchased did not cost more than the permitted maximum for the year of purchase. If you subscribe for up to £200,000 worth of shares, you get 30 per cent tax relief but you have to hold onto the shares for five years. Any gains are free of Capital Gains Tax.



It can be a good idea to crystallise capital gains if there is going to be no tax to pay

Each year you are entitled to make tax-free capital gains of £10,100 (2009/10 figure). If you have not made any gains and have (say) some shares that, if you were to sell them, would achieve a taxable gain of no more than £10,100, it would make sense to sell them and then buy them back (if you wanted to keep the shares) because you would then have them at a higher cost of acquisition and if you were to sell them again in the future, this would reduce or possibly eliminate any taxable gain when that happens. If you do buy the shares back, you have to wait for 30 days to do so.



Claim rollover relief

If you make a gain on the sale of a qualifying business asset, and reinvest the proceeds in a new qualifying business asset, within the period starting one year before and ending three years after the original disposal, a claim may be made to have the gain deferred.

Qualifying business assets include land and buildings (including property which qualifies as furnished holiday lettings); plant and machinery; ships; aircraft; hovercraft; goodwill; milk, potato and fish quotas; ewe and suckler cow premium quotas; payment entitlements under the farmers' single payment scheme and Lloyds syndicate rights.

For the very adventurous business person, satellites, spacestations and spacecrafts are also included!

The replacement asset doesn't have to be within the same category as the asset sold.

Where only some of the sale proceeds are reinvested, the remaining part of the gain is immediately chargeable.



Time your sales to defer payment of Capital Gains Tax

A tax deferred gives you a cash-flow advantage, so it makes sense to delay the due date for paying tax whenever you can. If you sell an asset on 5 April, you will have to pay the Capital Gains Tax ten months later. If you delay the sale by just one day and sell on 6 April, the Capital Gains Tax doesn't have to be paid for 22 months. Don't forget the date of sale for Capital Gains Tax purposes is the date you exchange contracts and not the completion date.



Reduce or eliminate Capital Gains Tax on a second home

If you are about to purchase or have purchased a second home, you can elect (within two years from buying the second one) which is to be the principal private residence for Capital Gains Tax purposes. This is a complex area and it's recommended that you take professional advice.

A further consideration worth looking into would be if you are selling a second home and there is tax to pay, could you occupy it for a short time as your main residence as this may reduce the tax payable? You would get a minimum of three years' worth of Private Residence Relief (but you would genuinely need to move in for a period).

There are also valuable allowances available where your main residence has been let: £40,000 for let property relief and a 36-month extension for Private Residence Relief.