

New Year Tax Planning Resolutions



Personal and family tax planning

1 Contribute up to £1,200 each year into your son's or daughter's tax free Child Trust Fund savings account. The fund will build up free of tax on investment income and capital gains – just like an ISA – until the child reaches 18 when the funds can be withdrawn. Every child living in the UK and born after 31 August 2002 should receive a voucher from HMRC to open a Child Trust Fund.

2 Use your ISA flexibly and invest early in the tax year to get the full benefit. If you have not already invested in a maxi ISA in 2006/07, you can open a mini cash ISA and use it as a day-to-day savings account. As long as you do not deposit more than a total of £3,000 in this tax year, all the interest earned will be tax free. And later on you will have the option to transfer your cash into other investments, if you wish. Remember anyone aged 16 and over can open a cash ISA, so encourage your older children to save in this way as well.

3 Check your PAYE code. Up to a quarter of all PAYE codes are incorrect when first issued. HMRC may have included an estimate of your unearned income for the year, which means you will pay tax on that income far earlier than you would otherwise through your self-assessment tax return. You can ask HMRC to remove this estimated income and correct any other errors.

4 Plan your income for the year before you cash in your life assurance bonds. The profit on your bond could push more of your total taxable income for the year into the higher rate tax band. To avoid this spike in your income, you could reduce your other sources of income by closing deposit accounts just before the beginning of the tax year, or by changing the amount you draw from your company or pension fund.

5 Make large pension contributions. There is an annual allowance of £215,000 in 2006/07, the maximum total pension contribution normally qualifying for tax relief for an individual. You and your employer between you can contribute up to this amount, but you personally cannot contribute more than 100% of your earnings for the year. Even if you have no earnings, you can benefit from tax relief on gross contributions of £3,600 in any tax year.

6 Employers' pension contributions save NICs. If your employer pays you salary or bonus which you then invest in your pension, both you and your employer have to pay NICs. But if your employer pays contributions directly into your pension scheme, the employer gets the tax relief and there are no NICs to pay – saving the employer's NIC of 12.8% and your NICs as well. You could arrange with your employer to cover the cost of the contributions by reducing your salary or not taking a bonus you are due. But HMRC is very particular about how this should be done to be tax-effective.

7 Own your home as 'tenants-in-common' rather than as 'joint tenants' with your spouse or civil partner to help you save inheritance tax. You can then pass your share of the property to someone else when you die and make full use of the inheritance tax nil rate band, thereby potentially saving inheritance tax of £114,000 (ie 40% on the 2006/07 nil rate band of £285,000).

Business and property tax planning

8 Incorporation is still worthwhile. Although the zero rate of corporation tax has been abolished, a business with profits of around £50,000 can still save tax and NI of over £4,300 if you trade through a company and take most of your earnings as dividends compared to a sole trader.

9 Choose the right company car and reduce your tax. You can set the full cost of buying a new company car against your company's profits this year, if you choose one from over 70 models with an official CO₂ emissions rating of 120 g/km or less. And as the car driver, you will also benefit from a lower income tax charge.

10 Buy green equipment and save tax. Choose an energy-efficient or water-efficient item, even basic fittings such as lighting, heat pumps or toilets, and it could qualify for an enhanced capital allowance. You could then set the full cost of the new equipment against your taxable profits in the year you bought it. Check which items qualify on www.eca.gov.uk.

11 Do not forget to claim for the costs of your travel to your investment property. HMRC will allow you a mileage allowance for the costs you incur to carry out inspections, repairs, or any other tasks your managing agent does not perform.

12 If you let a property abroad, you must report the income received to the local tax authorities as well as to HMRC. You should report overseas rental income on the foreign income pages of your UK tax return, but you can offset the foreign income tax you pay on the property against your UK income tax liability.

13 Where you use the services of a self-employed contractor, ask them for a mandate. This is an irrevocable undertaking that the person will not ask HMRC for a refund of the tax they have paid on their income from you, and this tax may be reclassified as tax on employment, in the event that HMRC decides they should have been treated as an employee rather than as self-employed. If they sign this mandate, then the employer's PAYE which you would be due to pay will be reduced by the self-employed tax the contractor has already paid.

14 Pay for your employees' eye tests if they have to use a computer, and also cover the cost of any lenses prescribed to use the equipment. The employees will not be taxed on these costs, but the tax relief does not include spectacle frames or such features as tinting, which do not relate to the computer use. Even shareholder-directors can benefit from this.



Remember

15 Tax reliefs and rules can be changed with little or no notice. For example, the provision of tax-free computer equipment to employees was stopped with only two weeks' notice. So be as flexible as possible with your tax planning, and have a back-up plan to put into action if a scheme or tax relief is withdrawn.