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The year ahead...

Most people would prefer not to think about tax, but if you can bear to face up to it, you may end up paying less. It's a good idea to review your tax affairs at least once a year, and well before the end of a tax year is a good time to do so. The Chancellor has announced sweeping measures which will have a significant effect on many taxpayers' liabilities - we've had some tax cuts over the last year to try to stimulate the economy, but over the next few years we are going to have to pay for it. Plans that have made sense in the past may need to be looked at again.

Of course, the best plans are not hurried - the last day of the tax year, when most plans ought already to have been implemented, is not the best time to consider them for the first time. If you think ahead and act in good time, you can save money.

Under self-assessment, 31 January is the time limit for paying tax and for filing returns and most claims. 5 April is still important as the cut-off between one year's income and another's.

This leaflet sets out some of the points which should be included in a "year-end tax review". Some of them stay the same from year to year, some change a little, some are completely new. Of course, the precise circumstances of each individual have to be taken into account in deciding whether any particular plan is suitable or advantageous - but these suggestions may give you some ideas to discuss with your advisers. ●

This year, next year

Income is "cut up" into fiscal years to decide whether you are a higher rate taxpayer or not. Someone who goes over the limit one year and has nothing the next pays much more tax than someone with a steady, level income. If your income might fluctuate, it is worth looking at ways to advance or delay the charge on that income in order to even out the tax rates.

Of course, if the tax charge is going to be the same in either year, then most people would rather pay the tax later - if you receive some types of income on 6 April rather than 5 April, you may pay the tax on it a whole year later.

The big changes on 6 April 2010 affect:

- people with income of £100,000 a year - they start to lose the benefit of their tax-free personal allowances;
- people with income of £150,000 a year - they will pay income tax at a top rate of 50%.

If you are affected by that, it will be worth moving income forward to beat these increases - paying 40% now is better than paying 50% in 12 months. Income that can be moved from year to year easily includes:

- salary (although PAYE means that the payment of the tax cannot be delayed for a whole year);
- dividends from family companies;
- distributions from discretionary trusts;
- tax charges on cashing in some life insurance policies.

If the tax rate is going to be the same - 40% in either year, say - then it may be worth moving income a few days later so that the tax is payable a whole year later.

It is also possible to claim reliefs for some types of payment in particular years to make sure that they reduce income taxable at the highest rate. These include pension contributions and charitable donations. There are special rules about extra pension contributions at the moment (see the item "Pension hit"), but if you are thinking of giving money to charity and you earn a little over £100,000, it might be better to wait until 6 April 2010 before being generous - you might preserve some of the tax-free allowances which will otherwise be withdrawn.

Mr Darling has also announced increases in National Insurance, but those won't hit until 6 April 2011. Thinking about moving income will be important again next year. ●

Profit and loss

If you run a business - whether it's a sole trade, a partnership or a limited company - the end of your accounting period is the most important date for tax planning. You can move income and expenditure from one year to another, changing the rate of tax and delaying tax payments, by reviewing your plans for purchases and sales of capital assets or the payment of bonuses and other significant expenses.

If the accounting date is different from the end of the tax year, there are some advantages and pitfalls in the mismatch between the two - for example, a salary payment may be an expense for the company either earlier or later than it is income of the employee. It's worth thinking about the opportunities and the possible problems around the two year ends.

One of the big changes in recent years has been the introduction of an "annual investment allowance". You can write off the first £50,000 of expenditure on most plant and machinery against the current year's profits, so you get full tax relief on that very quickly. There's also a temporary first year allowance of 40% for businesses who spend more than £50,000 before 31 March/5 April 2010 (depending on whether you are a company or unincorporated). So if you are thinking of investing in plant, it's worth looking at the date.

ACTION POINT:
HAVE YOU REVIEWED THE LIKELY TAXABLE PROFITS BEFORE YOUR YEAR END?

A good start for VAT

When you are starting or growing a business, getting your VAT registration right is very important. If you register too early, you have to account for VAT on sales that could have been VAT-free. If you register later than the law requires, you can suffer a penalty. And you might want to register before you have to so that you can claim back VAT on start-up expenses. You can lose out if you incur VAT too long before the date you put on your VAT 1 registration application, because you can't get it back.

You also can't change the date once you've sent the form in - so it's very important to plan ahead and decide when you might want to, and when you might have to, register for VAT.

ACTION POINT:
ARE YOU RUNNING A BUSINESS THAT ISN'T REGISTERED FOR VAT?

Family fortunes

Everyone has a "personal allowance" of tax-free income (£6,475 in 2009/10), and the next £37,400 is taxed at 20%. You pay £10,070 less tax on the first £43,875 than on the next £43,875 (taxed at 40%). If your income includes dividends, which are taxed at different rates, the reduction may vary.

The problem is that not everyone can use their allowances in full. In a family where one partner goes out to work and the other raises the children, the carer (and the children) may not have much income. If the "breadwinner" is a higher rate taxpayer, this is a waste.

Take two couples. In one, each partner has £45,000 in salary. They'll pay about £12,140 in tax and NIC each, £24,280 in all. That's just under 27% of their combined income of £90,000. In the other couple, one partner gets £90,000, and the other has no income. The earner pays about £30,590 in tax and NIC - about a quarter more than the couple who split their income. If the income isn't subject to NIC, the difference gets bigger - there's more NIC to pay on two separate salaries than on one big one.

It is not always easy to transfer income between husband and wife in order to take advantage of allowances, but the following methods are possible:

- an outright gift of savings and investments which produce taxable income;
- putting savings and investments into joint names and sharing the income;
- employing the spouse in a business;
- taking the spouse into partnership.

HMRC can challenge some of these if they think the transfer is not genuine - it's important to take advice to be sure that the plan will work.

The biggest saving (about £10,000) comes from moving £43,875 in investment income to someone with no income, but smaller gifts are also worthwhile. A 40% taxpayer can save £400 a year on a transfer of just £1,000 of taxable interest income if the spouse stays below £6,475 in total.

Capital gains are easier to pass on for tax. If you are likely to realise a gain above your annual exemption, you could transfer the asset to your spouse first and save up to £1,818.

ACTION POINT:
CAN INCOME OR GAINS BE TRANSFERRED TO REDUCE THE TAX?

Pension hit

If you earn at least £150,000 a year, you will be concerned about the new 50% tax rate coming in on 6 April 2010. You should also be looking at new restrictions on tax relief for pension contributions. Although that's only due to bite on 6 April 2011, there are rules now to stop people advancing the contributions they would make after that date to take advantage of the more favourable relief now.

What this means is that there will be a tax hit for anyone who pays more than their regular contributions and more than £20,000 a year from 22 April 2009 to 5 April 2011. Regular contributions are payments under a pre-existing contract which are made quarterly or more frequently, but a higher limit applies if contributions averaging up to £30,000 a year were made in each of 2006/07, 2007/08 and 2008/09. The effect of the charge is to withdraw the 20% higher rate relief that would have been enjoyed at the top rate of tax.

This does not affect people with income below £150,000 or pension contributions below £20,000 a year, but it could have a significant impact on anyone above those limits.
From 9 December 2009 onwards, a contribution your employer makes is added to your salary to see if you go over £150,000.

ACTION POINT:
IF THIS AFFECTS YOU, TAKE ADVICE BEFORE PAYING PENSION CONTRIBUTIONS

Turning back the clock

If you are making losses in your business, you can use the "carry back" rules to get back tax you paid on past profits. Normally you can only set a loss back one year. This has been extended to 3 years, for the first £50,000 of loss only, for income tax traders with losses in 2008/09 or 2009/10, and for companies with losses in accounting periods ending from 24/11/2008 to 23/11/2010.

If you are currently making a loss which you expect to be able to carry back, you can defer the payment of the tax liability for the previous period - normally you would have to pay the tax and claim it back when you can produce the accounts to prove that you made the loss.

The tax rate on small company profits is going up to 22% in April 2011. If you claim a loss against 2006 you might only get relief at 19%, when it could be 22% going forward. Still, 19% of a bird in the hand is likely to be worth more than 22% of a bird in the bush!

ACTION POINT:
ARE YOU MAKING LOSSES IN YOUR BUSINESS?

Penalty shoot-out

The taxman can fine you if your returns are late or wrong. The rules on errors changed in 2009, and everyone is getting used to a new system where experience won't always tell us how big a penalty is likely.

It's still the case that any penalty can be reduced if the taxpayer deals with it promptly - as soon as it comes to light it is disclosed to HMRC, the reasons are identified and explained, and the correct tax is paid without delay. If the error was just a careless mistake, dealing with it in this way can avoid a penalty altogether.

Failing to deal with an error is likely to increase the level of penalty if HMRC find out about it later. So it's important not to brush things under the carpet - if you think something may have gone wrong, it's best to face up to it and take advice on how to put things right. We can only help if we have all the available information, so it's important to put us in the picture.

ACTION POINT:
ARE YOU SATISFIED THAT YOUR RETURNS ARE ACCURATE?

A place in the country

The property market has been the source of big profits in recent years. Even if values have fallen recently, many people will own houses that are worth much more than they cost. Gains on your "only or main residence" are not taxable (unless you use part of it exclusively for a business purpose), but a second home or an investment property will be chargeable to CGT at 18%.

If you use more than one property as a residence - that is, you yourself live in them both - you can choose which one you want to be exempt from CGT. Although this might be the one that you live in most of the time, you are likely to obtain an advantage - and give yourself greater flexibility in the future - if you make an "election" within two years of acquiring the second home. For example, if you decide to sell the "second home" first, or if the gain on it is larger than the gain on your main home, it might be useful for it to be exempt. This has had a bad press lately because some MPs were using the rule for houses which taxpayers were already buying for them - and they weren't living there at all. But it can be a perfectly respectable plan.

You can only elect for a "residence" to be exempt, not an investment property that is let out to others. So a "buy-to-let" property is chargeable to CGT. But if you are letting out a property that you have lived in, or you move to live in a property that you have let out, you can enjoy significant extra reliefs.

ACTION POINT:
DO YOU HAVE A SECOND HOME? DO YOU WANT TO "MOVE-TO-LET"

Pay tax later

If you are within PAYE, most or all of your tax is collected before you see your income. If you are self-employed, it is likely that you will pay most of your tax through self-assessment. This normally involves making payments on account (POA) on 31 January during the tax year and 31 July just after the end of it.

The 2009/10 POA, due on 31 January and 31 July 2010, are initially based on the tax that was due for 2008/09. If your final 2009/10 tax is higher, you pay the balance on 31 January 2011. If your liability drops, you will get a repayment when you send your tax return in - but waiting for that rebate might leave you out of pocket.

It's also possible to claim to reduce the POA to "what they ought to be" before you send in the 2009/10 tax return. You don't need to have a precise calculation, but you can usually tell when the POA will be much too large. If the 2009/10 self-assessed income has fallen - the business has had a bad year, interest rates on your savings are pitiful, or maybe you've taken a job within PAYE instead - it's worth making the claim so the money is in your bank account rather than theirs. From what the papers say, a lot of people should be making this claim this year.

ACTION POINT:
IS YOUR TAX BILL FOR 2009/10 LIKELY TO BE LESS THAN IT WAS IN 2008/09?

Tax-free benefits

The taxman usually wants a slice of any "benefits in kind" provided by an employer to employees - particularly if they are directors of their own limited company. But there are quite a few benefits that are tax-free by law, and so if your employer buys them for you, that's cheaper than paying you salary (with tax) for you to buy them yourself. There is a long list of possibilities, but here is a selection:

- pension contributions of up to £245,000 (in 2009/10)
- childcare vouchers of up to £55pw
- one mobile telephone where the employer owns the phone
- vans where the private use is restricted to home-to-work travel
- loan of a bicycle for commuting
- health checks for employees or members of the household
- 40p per mile mileage allowance for business use of your own car
- annual party costing up to £150 per person attending

ACTION POINT:
CAN YOU BENEFIT FROM THESE?

Top-up savings

Contributions to some tax-favoured investments are capped for each fiscal year. The limit for Individual Savings Accounts (ISAs) is £7,200 in total, or £10,200 if you're over 50 (it's going up to the higher figure for everyone on 6 April 2010). You can put up to £500,000 a year into Enterprise Investment Schemes (with 20% relief and possible CGT deferral), and £200,000 into Venture Capital Trusts (with 30% income tax relief). Extra pension contributions may get better relief - certainly earlier relief - if you make them before the end of the tax year.

Of course, the tax relief does not on its own make something a good investment - you need to take proper advice on where to put the money, as well as understanding how it will reduce your tax bill. If you are thinking of putting money into one of these schemes, you may want to do so before 5 April to maximise the benefit.

ACTION POINT:
DO YOU WANT TO TOP UP YOUR INVESTMENTS?

NIC and pensions

If you are a member of an employer's pension scheme, you can contribute from your salary and get tax relief. However, your salary is subject to NIC, and that doesn't get reduced by pension contributions that you pay. The employer pays 12.8% on most salaries, and employees pay 11% up to a salary of about £43,875 (in 2009/10) and 1% after that.

If the employer pays pension contributions directly into the fund on an employee's behalf, there is no income tax and no NIC. Suppose an employee has a salary of £30,000, and gets £1,000 in salary to pay into the fund. That will cost the employer £1,128, and the employee will be able to invest £890 after NIC. If the employer puts £1,000 directly into the fund, there is a saving of £128 and £110 - a combined benefit of £238. It's a very basic plan, but it needs to be done properly to make sure that the Revenue can't argue there was "really" a payment to the employee anyway - it's worth taking advice if you are going to make a so-called "salary sacrifice".

ACTION POINT:
DO YOU MAKE EMPLOYEE CONTRIBUTIONS TO A PENSION SCHEME?

Where there's a Will

Inheritance tax is often thought of as a tax for the rich, but it is really a tax for the unprepared - the rich have usually made their arrangements and pay very little. Although IHT is not so closely related to the tax year, an annual review of tax matters can usefully include checking the exposure to IHT and whether anything can be done to mitigate it. In particular, it is useful to have a clear and up-to-date Will, which has been drafted with tax in mind. This is particularly important if you have total assets, including a house and any insurance policies which would be paid to your estate on death, in excess of £325,000 - the current starting point for IHT (now likely to be fixed until 6 April 2011).

There are a number of standard, unobjectionable measures which people can take to save very significant amounts of IHT. These include:

- reviewing the payees of the proceeds of insurance and pension policies - if the insured person's executors are entitled to the money on a death, there will be unnecessary IHT;
- giving surplus assets away as early as possible - they will fall out of IHT altogether if you survive 7 years after the gift;
- making regular gifts out of surplus income during lifetime rather than saving up for a big legacy on death - the regular gifts are often not chargeable at all, while the big legacy is likely to cost 40% in tax.

In October 2007, the Chancellor announced an important change to the way married couples and registered civil partners are taxed if they leave property to each other when the first one dies. It's possible to leave everything to the survivor without wasting the £325,000 nil rate band. If you drew up a Will before then, you may have been advised to put in an IHT plan that's now out of date, and it's worth reviewing it. If you haven't done the planning, the Chancellor may have saved you the trouble - but it's still worth looking at!

ACTION POINT:
HAVE YOU CONSIDERED HOW MUCH IHT YOU MIGHT PAY?

Company cars

Company cars are taxed on a percentage of their original list price, based on the CO_2 emissions rating of the vehicle. The benefit has been rising recently to raise the tax on "gas guzzlers", and it's going to increase again over the next few years. The lowest rate of tax is on a car rated up to 120g/km, taxed on only 10% of the list price. Above that, 15% of list price applies on ratings up to 139g/km, and above that the charges go up by a percentage point at 140g, 145g etc. The percentage for diesel cars is 3% higher, but the maximum for either type is 35%.

The main planning point arises if you are due for a change of company car. You may consider a lower-rated car because of the lower tax charges. You may also think about owning the car yourself and claiming a mileage allowance for business use - the employer can pay 40p a mile tax-free for up to 10,000 miles in a year. The first 1% addition will bite at 135g/km in 2011/12, and the present limit on list prices of £80,000 will be removed - so the new car decision you take now may have a further impact down the road. There'll be another rate increase a year after that.

On the other hand, the rules are quite favourable for those with a "pure perk" car - minimal business mileage - as long as it has a low CO_2 rating.

The benefit of an employer providing free fuel for private use in a company car uses the same percentages as the car benefit, applied to a fixed figure. It's worth checking that the tax you pay to the Revenue isn't more than what you are saving in not paying for petrol. If you pay tax at 40% and have a car rated at 170g/km, the tax on a petrol benefit in 2009/10 would be £1,487, and your employer will pay NIC of £475. If your private petrol would cost less than £1,962 altogether, it could be cheaper to pay for it yourself than to have it free (hard though that is to understand!).

Recent fluctuations in the cost of fuel make the sums complicated again. The Revenue's fixed figure doesn't change as quickly, but it's going up by 6.5% in 2010/11. It's possible that "free fuel" is not as good an idea as it sounds.

ACTION POINT:
ARE YOU PAYING MORE TAX THAN YOUR BENEFITS ARE WORTH?

His and hers

Because husbands and wives are separately taxed, they can split certain types of income between them to take better advantage of their personal allowances and tax rates. HMRC may question this - for example, if one employs the other in a business and pays a salary, the salary can't be excessive for the duties involved. If one gives income-bearing investments to the other, it has to be an "outright gift" of something which is not "wholly or mainly a right to income" - a proper capital asset.

HMRC took a case to the House of Lords in 2007, trying to show that the income from a "husband and wife company" should all be taxed on the husband. They lost, and immediately said they would change the rules so they would win next time. Their proposals were so complicated that they decided to put them off, and later the Chancellor announced that a recession is not the time to bring in a measure that would be likely to damage small businesses. Tax advisers say there is never a good time to bring in such a rule, but HMRC seem keen to revisit this at a later date!

In the meantime, husband-and-wife businesses have a breathing space in which the tax saving still works - within limits. It's still important to know what works under the current rules and what the taxman can already object to.

ACTION POINT:
DO YOU JOINTLY OWN A BUSINESS WITH YOUR SPOUSE?

Holiday lets end

We are all Europeans now. One of the fundamental rules of the European Union is that governments cannot treat their own businesses more favourably than businesses from other member states - you can't be mean to foreigners just because they are foreign. It's surprising how often our Government forgets this.

We've had business-friendly rules for "furnished holiday letting" (FHL) for many years. Now someone has pointed out that only UK properties qualified - zut alors! Verboten! So the Chancellor has announced that the generous rules will be extended to properties elsewhere in Europe, and backdated to April 2003 if you have the records - but then the whole scheme will be withdrawn on 5 April 2010. We are allowed to be mean to foreigners as long as we are mean to ourselves as well.

There probably aren't many people who have a foreign holiday cottage which qualifies as FHL - if you didn't think you could benefit, you probably wouldn't have ticked all the boxes. If you think you might, you could make a claim for repayment of past tax.

If you have any FHL property, in the UK or elsewhere, it will be important to plan for the withdrawal of the relief. Entrepreneurs' Relief reduces CGT on the first £1m of lifetime business gains from 18% to 10%, and FHL properties have qualified for this favourable treatment. There has been concern that there could be an immediate jump to the normal 18% rate on a sale of FHL property after 5 April 2010. That might cause a mad scramble and a collapse in the market, but HMRC have announced that disposing of an "ex-FHL property" within three years of the rules changing will qualify for Entrepreneurs' Relief. So there is no need to sell in a hurry, but it will be worth thinking about before 5 April 2013.

ACTION POINT:
IF YOU HAVE ANY FHL, THINK ABOUT THE CHANGE OF TAX TREATMENT

Too much NIC

If you have more than one employment, or an employment and a self-employment, you could end up paying too much in National Insurance Contributions. There is a higher rate of NIC (11% for employees, 8% for self-employed) on the first slice of everyone's income, then a 1% charge on income above a set limit (£43,875 in 2009/10). If two employers pay salaries separately, or you have employment and self-employment, you may pay the higher rate on two separate amounts that add up to more than the limit.

It is a simple matter to apply for the limit to be operated on the combined figure, but it is supposed to be done before the start of a tax year in which you are likely to pay too much. It is always easier not to pay NIC than to get it back after overpaying!

ACTION POINT:
COULD THIS AFFECT YOU?

Standard VAT or flat VAT?

A simplified "flat rate VAT scheme" is available for businesses with VATable turnover of up to £150,000. You pay a lower rate of output tax on your sales, but you don't claim input tax on your expenses. The rate depends on the type of business you are - some rates seem to be generous, and some are less so. It is at least worth considering the figures if you qualify, to see if it might save you money or time, or even both.

There are bigger savings - or pitfalls - if you have two different activities which on their own would have different flat rates. The rules say you should use one rate for the whole business, and it's the one appropriate for the larger part of your turnover. That can be a very good thing or a very bad thing, and it's important to think about it.

The cut in the standard rate of VAT during 2009 affected flat rate traders in different ways. The rates went down by different amounts, and have now gone back up again on 1 January 2010. After two changes it's worth double checking that you are using the right rate, and that the scheme is still to your advantage - particularly as the rates didn't all go back up to where they were on 30 November 2008.

ACTION POINT:
COULD YOU SAVE UNDER THE FLAT RATE SCHEME?

Show me the money

Because corporation tax rates are lower than the top rate of income tax, company owners may save money by leaving their profits in the business. The company pays tax at 21% in 2009/10, but if the profit is paid out the owners will pay more tax on the remaining 79%. The problem is that the point of making a profit is usually to spend it on yourself and your family - if it's locked up in the company, that's no good.

There are very different tax charges which apply to the different ways of taking money out of a company, as well as company law rules which prohibit some transactions, such as dividends where there are no accumulated profits. As the Chancellor keeps changing the tax rates for all the taxes involved - corporation tax, income tax on salaries, interest and dividends, and NIC - the best course of action can change from year to year. If you are thinking of winding up or selling the business, a new range of possibilities has to be considered.

The difference can be substantial - it's something that's well worth taking advice on.

ACTION POINT:
WHAT'S THE BEST WAY TO GET PROFIT OUT OF YOUR COMPANY?

Paperwork, paperwork

The taxman sometimes seems to believe that the main reason for running a business is to fill in official forms. He wonders how you can be late submitting something to him, when that is the most important task there is!

The penalties for lateness start off annoying and end up very expensive, particularly for VAT. If you have been late filing VAT returns, you will be sent a "default surcharge liability notice". If you are late again within 12 months - usually the next four returns - you may have to pay a penalty based on a percentage of the VAT outstanding. The percentage goes up every time you are late - the maximum rate is 15%, which is very harsh if you are just a day over. Sometimes even the most careful trader gets into difficulties, and it is possible to get out of the fine if you have a "reasonable excuse". But it's better to identify the possible problems and do something about them. If you have received a liability notice, it's really important to file four returns on time and get rid of it. It's worth taking advice on the various ways available to make this easier.

ACTION POINT:
DO YOU HAVE DIFFICULTY FILING VAT RETURNS AND PAYING ON TIME?

Credits and debits

Child Tax Credits (CTC) and Working Tax Credits (WTC) have now been around for several years. The system for rebating tax to people who need it has been criticised as over-complicated, and there have been examples of people being paid too much and then finding the HM Revenue & Customs pursuing them to get the money back. But in spite of all the bad press, it's still worth thinking about making a claim, particularly if you are couple where both of you work and you therefore pay childcare costs.

The basic CTC (about £10 a week) is payable to a couple with a qualifying child and combined income of up to £50,000. Above that, it reduces to nothing by the time total income is about £58,000. The form may be longer and more complicated than seems reasonable (when a lot of the information is already provided to the Revenue on the tax return), but £545 a year probably pays for the effort. WTC will pay up to 80% of £300 a week in childcare costs, so it can be quite generous even on combined incomes above £30,000.

It's worth looking into, particularly if your income goes up and down, and is not predictable at the beginning of the year. To start with, a claim is based on last year's income - 2009/10 for the 2010/11 payment year - and it's then revised at the end of the year based on actual income. If you make a claim at the beginning of 2010/11 based on 2009/10 income of £100,000, your claim will be noted but you will receive nothing. If by the end of the year your income has fallen to £30,000 for some reason, you would get the higher level of payment - maybe £3,000 - backdated to the beginning of the year. If you only bother to claim at the end of the year when you know your income is low enough, you only qualify for payment from three months before you claim.

This "protective claim" idea is particularly important in an economic downturn - it benefits people to claim when they won't qualify immediately, in case they do so later. Until the taxman changes the rules, it makes sense to think about a claim even if your past income is above the limit.

ACTION POINT:
SHOULD YOU CLAIM CTC/WTC?

Gains favoured

Recent falls in stock and property values may have turned CGT into a problem many people wish they had, but there are still lucky people sitting on unrealised gains that are exposed to tax at 18%. If the economy recovers - as we hope it will - investments bought now may be showing big gains in a few years.

A lower rate of 10% is available to people who dispose of their own businesses - there's a limit of £1m of gains over your lifetime. The conditions for this "Entrepreneurs' Relief" are complicated and it's worth checking that you are entitled to it if you are hoping to benefit. Don't sell up in the expectation of 10% and be disappointed to find the tax is nearly twice as much.

A striking feature of the tax system now is the big difference between income tax rates (personal allowance of £6,475, top rate 40% - going up to 50% in 2010/11) and CGT rates (annual exemption £10,100, top rate 18%). It doesn't take a genius to spot that you will keep more money if you can arrange to have your investment returns in the form of gains rather than income. HM Revenue & Customs are aware of this - there was a similar difference before 1988, and they will be dusting off old rules that let them charge people at income tax rates on what the taxpayers think are gains. If you are hoping to take advantage of the new lower CGT rate, it's worth being sure that none of these anti-avoidance provisions can be applied to you.

ACTION POINT:
DO YOU KNOW HOW MUCH CGT YOU MIGHT PAY ON YOUR ASSETS?

Still trustworthy?

Trusts may be set up for tax reasons or for other reasons - but the tax rules are important either way. Trusts pay the same tax rates on both income and gains as individual taxpayers. In some cases, a trust will pay higher rate tax, even if the beneficiaries are all lower rate taxpayers. Discretionary trusts are going to be hit with the highest income tax rate in 2010/11 - 50% - and the trustees of such trusts need to consider urgently whether there is anything they can do about these heavy tax costs. It may be worth paying out all the accumulated income before 6 April 2010, creating a life interest, or investing to produce capital gains in future (on which a trust only pays CGT at 18%).

If a trust has a "vulnerable beneficiary" - a disabled person, or a child under 18 one or both of whose parents have died - it's very likely that the beneficiary will have unused allowances and lower rates. The rules allow the trustees to take advantage of the beneficiary's tax reliefs, but the rules are complicated, and professional advice is likely to be needed.

In 2006, Gordon Brown introduced some very controversial changes to the inheritance tax treatment of trusts. These were presented as a way of stopping rich people avoiding IHT, but trusts are a very common device to protect young people from the dangers of having access to too much money too early, and the effects of the changes may be to increase that risk. Anyone whose Will includes a trust, or who has established a trust already, should take advice on the IHT impact of the new rules if they have not already done so. It may be better to leave the trust in place and suffer the tax, but it will be important to understand what the liabilities are.

ACTION POINT:
ARE YOU A TRUSTEE OR A BENEFICIARY OF A TRUST?

VAT goes down - must come up?

By now, anyone running a business should already have dealt with the restoration of the standard rate of VAT to 17.5% on 1 January 2010. A Bank Holiday on the day after a party is not the best date to pick for a tax change that affects most retail sales, but we didn't get to choose it.

After having to cut the rate on 1 December 2008, most people will be more familiar with the problems of a VAT change than they were before - but there are still problems and catches. If you only account for your VAT when the cash comes in, you have to worry about what appeared on the invoice - if you charged 15% in December, then 15% is what you owe HMRC, even if you receive the money in January. If you have to issue a credit note, it too should carry the same rate as the invoice.

HMRC say that they appreciate the difficulties that businesses go through on a rate change, and will operate a "light touch" where people have made mistakes. Being "touched lightly" by HMRC may still be more than most people want!

ACTION POINT:
ARE YOU CONFIDENT THAT YOU KNOW THE RULES ON CHANGING THE VAT RATE?

Happy returns?

From April 2010, traders with turnover of more than £100,000 a year and all newly VAT-registered traders will have to file their VAT returns online and pay by electronic transfer. Smaller traders who registered before that date will still be able to file paper returns, but this will be reviewed by 2012. A VAT return is quite a simple document to file online, and most businesses have a computer these days - but it will still be necessary to obtain authorisation for filing in good time.

ACTION POINT:
ARE YOU READY TO FILE VAT RETURNS ELECTRONICALLY?

Opportunity knocks again

In 2007, the taxman offered a "disclosure facility" to people who had undeclared income or gains in offshore accounts. This was prompted by HMRC obtaining lists of people who had offshore accounts with the high street banks, and finding that there were far more of them than declared foreign income on their tax returns. If people came forward then to pay the outstanding tax and interest on it, they were offered only a 10% penalty instead of the potential maximum 100%. The implication was that they would then come looking for everyone else and impose higher penalties.

Now there is a second "disclosure opportunity", running from September 2009 to 12 March 2010. The same 10% penalty is offered, but it will be doubled to 20% for anyone who knew about the previous opportunity and failed to come forward. To take advantage, taxpayers are supposed to have notified HMRC by 4 January 2010 that a disclosure will be coming, with the details to follow later. Anyone who fails to take advantage this time can expect a higher penalty if they are discovered later by HMRC - they don't propose to offer a third drink in the last chance saloon.

ACTION POINT:
DO YOU HAVE ANY OFFSHORE BANK ACCOUNTS? IF YOU DO, ARE YOU SURE THAT EVERYTHING THAT SHOULD BE DECLARED HAS BEEN DECLARED?

Splitting gains

Everyone has an annual exemption for CGT (£10,100), but you only use it if you dispose of something. That means that making a gain of £50,000 in five years' time is likely to cost you a lot in CGT, but if you can split it up into chunks of £10,000 each year you will pay none.

If you have a portfolio of investments, it is common for your investment manager to sell some near the end of the tax year to trigger capital gains, reinvesting the proceeds in something else. There is a cost in commission, but the tax saving is almost certainly much greater. It's important to make sure that the manager knows if you have realised gains on other assets - if you have used up your tax-free allowance elsewhere, the switching plan won't save you tax.

ACTION POINTS:
ARE YOU TAKING FULL ADVANTAGE OF THE CGT EXEMPTION?

Home and away

For many years, foreign domiciled people enjoyed a tax break in the UK on their foreign income and gains - if they left the money overseas, they didn't have to declare it here. Since 2008, people who have lived in the UK for 7 years have a choice: pay tax here on your worldwide income and gains, or pay a flat-rate charge of £30,000 a year and forgo your tax-free allowances in the UK. The only exception is if your total amount of foreign income and gains is under £2,000. Short-term UK residents such as expats on a secondment of less than 7 years still enjoy the tax break.

A rough-and-ready calculation shows you will be better off paying £30,000 if your overseas income is more than £75,000 - of course, it's more complicated than that with different tax rates applying to income and gains, but that's a starting figure. However, many people with substantial foreign assets and connections may do the even easier calculation and decide it's cheaper to live somewhere else. Anyone who has been using the "remittance basis" and has lived in the UK for 7 years should already have reviewed their plans; anyone who is approaching the 7 year limit should think about it as a matter of urgency.

ACTION POINT:
DO YOU CURRENTLY PAY TAX ON REMITTANCES OF FOREIGN INCOME?

Piggy banks

If a parent gives something to a child under the age of 18, the parent remains taxable on income if it is more than £100 a year. So you cannot enjoy the benefit of the child's personal allowances by putting investments or deposits in their names.

There is no similar rule for gifts from grandparents. Of course, the Revenue might be upset if a parent gave money to a grandparent to give to a child, but a genuine and straightforward gift from a grandparent, which does not originally come from the parent, can be put into a bank account for a child and no tax needs to be paid on the interest (as long as it is less than the child's allowances).

Anyone born from September 2002 onwards is entitled to a "child trust fund" - a savings account with £250 from the Government to start with. The money cannot be touched until the child is 18 (so not before September 2020!). If you have a child who qualifies, you can add to the account (up to £1,200 a year, and the £100 'income-from-parent' rule doesn't apply) so the child will build up savings tax-free.

ACTION POINT:
WHAT'S THE BEST WAY TO BUILD UP SAVINGS FOR THE CHILDREN?

European revolution

Apart from the increase in the VAT rate on 1 January 2010, there is another set of changes which will affect anyone who supplies goods or services to customers in the rest of the EU. Everyone who makes any foreign sales needs to be ready.

If you sell services to foreign-registered business customers, there are some changes which may affect whether you have to charge them UK VAT or not. There is also an entirely new requirement to file detailed reports of the supplies of services that you don't charge in the UK because the customer will deal with it in the other country. You'll have to send in the first European Community Sales List in April.

If you sell goods to business customers in the EU, the rules for zero-rating your despatches don't change, and you should already be used to filing quarterly sales lists showing your customers' VAT registration numbers. However, after 1 January 2010, you will have to file these returns much quicker - you may have to file them monthly, depending on your level of sales, and you will only get 14 days for a paper return rather than the 42 days you get at the moment. So you may need to comply with this new rule by 14 February.

There's some general information on the HMRC website, but it will be important to consider exactly how your own particular business is affected.

ACTION POINT:
DO YOU SELL ANY GOODS OR SERVICES TO CUSTOMERS ELSEWHERE IN THE EU?

Can't pay, won't pay?

HMRC have in the past been criticised for being too ready to close a business down if it could not pay its tax: since late 2008, it has been official policy to be flexible and to try to keep the business going. Delaying a payment to HMRC is likely to be easier and cheaper than extending a bank overdraft.

There are conditions: the taxpayer must be in genuine financial difficulty, and it must be likely to be able to pay if given more time. It is worth having detailed financial information to make a case to HMRC. If the business has no prospect of ever paying the liability, they are likely to take the usual enforcement action and cut their losses.

There are some major concessions: if you agree a "time to pay" arrangement before VAT falls due, there are no default surcharges to pay. A construction industry business can defer tax without losing entitlement to be paid gross.

The important thing is to be prepared. The business is supposed to put a proposal to HMRC before the due date - not wait until HMRC are sending red letters for overdue tax.

ACTION POINT:
COULD YOU MAKE A CASE TO HMRC FOR EASY TERMS ON BUSINESS TAX PAYMENTS?

Interesting times

Tax relief on home loans is a distant memory. But if you run a company or a business, or if you buy property to rent out, it's possible to enjoy tax relief on interest paid. Although the terms of such "business-related" loans may be different from a domestic mortgage, the tax relief can reduce the cost to 60% of what it would otherwise be. 60% of 8% is less than 100% of 6%! If the rates and terms are the same for two loans, tax relief is a pure advantage.

The same goes for paying off borrowings. If you want to reduce the cost of interest payments, look at the net cost rather than the gross - you might want to reduce "private" borrowings even if the rate is lower before you pay off loans on which you get tax relief.

ACTION POINT:
REVIEW BORROWINGS TO SEE IF RELIEF CAN BE OBTAINED

At the time of going to press we believe the information in this document is correct. It is an overview and further advice must be sought on specific matters.E&OE.