

These reliefs are so generous that the Labour government decided to restrict them for people earning over £150,000 a year from 5 April 2011 onwards. The new Chancellor is reviewing how this restriction will work, but it is very likely that pensions relief for high earners will not be as generous as it has been. In the meantime, anyone who earns at least £130,000 a year and pays a pension contribution of £20,000 should take advice first, because there may be a clawback of relief in 2010/11.

5 April as well

For an individual, the end of the tax year is an important cut-off date for planning. The timing of capital gains disposals around 5 April makes a big difference. You can take the maximum advantage of investments in ISAs and other tax-favoured schemes. If you run a business with a year-end which is not 5 April, you can get some benefits from that difference – it may be possible for the business to get tax relief on payments to you before you have to pay tax on the income.

Marginal rates

Now that income over £150,000 is taxed at 50%, it may be worthwhile for high earners to advance income into a year in which they still pay at 40%. You may pay tax a year earlier but you could pay much less.

How we can help

The last minute is not the best time to do anything, and certainly isn't the best time to make plans. If you talk to us regularly and in good time, we can discuss the ideas that may save you money around your year-end, whether it's the accounting date or 5 April. Once the date has passed it is too late!

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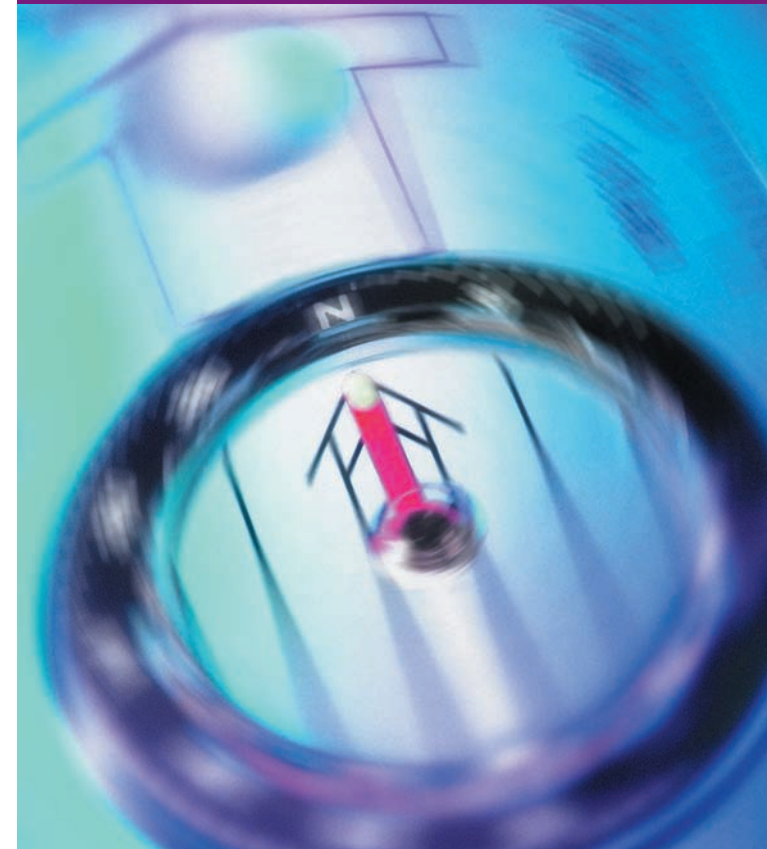
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Year End Planning



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Year End Planning



Closing time

As a business – whether a sole trader, a partnership or a limited company – you can choose the date to which you prepare your accounts each year. You aren't restricted to using the tax year.

Your business goes on all the time, but the results are artificially cut up into different accounting periods at your year end date, and things you do around that date can have a big effect on how much tax you pay – and when.

Capital ideas

If you buy plant or machinery, such as a computer or a commercial vehicle, you can take “capital allowances” off your taxable profits. The taxman won't allow the depreciation you put in the accounts, but instead you deduct the expenditure at rates set in the tax law. They are usually more generous than accounting depreciation – for example, the first £100,000 of expenditure on plant in an accounting period enjoys a 100% write-off for the year to 31 March/5 April (company/sole trader) 2011. Any excess over that gets the normal 20% relief for “writing down allowances” each year.

Buying something a few days before the accounting date, rather than a few days after, brings that big deduction forward a whole year. Spending £100,000 each year will get better deductions than spending £200,000 every other year. You don't have to have paid for the asset by the year-end, but you have to be contractually obliged to pay – usually, HMRC will expect you to have taken delivery.

Example

John has profits in the period of £90,000. A few days before 31 March 2011, he takes delivery of a new truck which he has bought for £60,000 – he will pay for it over the next three years on a finance deal. Immediately the profits are reduced for tax purposes to £30,000, even though depreciation in his accounts spreads the cost over 3 years.

New car, old car?

Cars with very low emissions ratings get a 100% allowance on purchase. Other cars are only written down at 20% (CO₂ up to 160g/km) or 10% (CO₂ above that). The timing of a change of car, as well as the car you choose, can have a significant effect on tax.

The rules on cars changed in 2009. If you have a business car which cost over £12,000 before then, or has been used for private purposes by a sole trader, there are important rules to check up on before you change the car.

Bills to pay

Many running costs of a business stay much the same from month to month and year to year. However, there may still be things that you can move around at year-end to get the deduction earlier – or, occasionally, later. These expenses include bonuses to staff (including yourself, if you are running the business through a limited company), pension contributions for employees, major projects such as an advertising campaign or decoration of premises.

Many expenses will fall in the period in which you have incurred the obligation to pay them, even if you

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pay them later – in some cases, you will need to consider the most appropriate accounting policy if the benefit is spread over a number of years.

Pensions

If you run your business through a limited company, you will be employed by it, and you can make contributions to an employer pension scheme or to a personal pension. If you are self-employed or in partnership, you are limited to the personal pension option.

Employer contributions have up to now been free of tax and National Insurance contributions for the employee provided they don't exceed the generous limit of £255,000 this year. As long as the company can justify the contributions as being for the benefit of the business, the company should be able to deduct them for corporation tax purposes. The company can set up a scheme for a group of employees, or else contribute to personal pension plans for individuals.

A UK resident individual is entitled to put £3,600 into a pension plan each year even with no earnings and no tax to pay. HMRC contribute £720 to the policy and the person only has to pay £2,880 to the pension scheme. If you earn more than £3,600, you can pay higher amounts into a pension policy and wipe out the tax on those earnings.

For example, if you have profits of £100,000, you would pay 40% tax on more than half of it – but pay a pension contribution of £40,000, and HMRC will top it up with basic rate tax relief of £10,000 to £50,000 gross. You then wipe out the 40% tax on the gross amount: that's another £10,000, so £50,000 in the fund only costs you £30,000 after tax.