TAX EFFICIENT INVESTMENTS

Individual Savings accounts (ISAs)

These provide an income and capital gains tax free envelope or wrapper for an investment. The current limits are as follows: -

- Shares – up to £7,000 (£7,200 from 6 April 2008)
- Cash – up to £3,000 (£3,600 from 6 April 2008)
- Life insurance up to £1,000

Even if you are not contemplating fresh investment consider transferring cash or selling existing equity holdings and then repurchasing them inside a self-select ISA plan.

Enterprise Investment Scheme (EIS)

This allows new equity investment in qualifying unquoted trading companies. Income tax relief is available on up to £400,000 at 20% on the investment together with exemption from capital gains tax if the shares are held for at least 3 years. It is also possible to defer gains on other assets sold using an EIS investment.

Venture Capital Trust

This is an investment vehicle that allows collective investment in other unquoted trading companies. Income tax relief is available at 30% on subscriptions up to £200,000. Both dividends and capital gains arising on disposal of the shares are exempt from tax.

Stakeholder pensions

It is possible to contribute up to £2808 net (£3,600 gross) per year into a stakeholder pension scheme even if you do not have any employment income. This can be a tax efficient way to provide a pension for a non-working spouse or to give an early boost to children's pensions at a time when the pot will have a long time to grow.

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BUSINESS

Defer Income/Accelerate Expenses

Review your policy for the recognition of income in your accounts to ensure it is tax efficient. (Although the policy will need to be within generally acceptable accounting principles). Tax allowances for capital expenditure can be claimed in the year the commitment to pay the expense is entered into rather than simply when the cash moves.

Salary to Spouse

Consider paying a salary to your spouse to utilise his or her personal allowances, lower and basic rate bands. Profit that might otherwise be taxed on you at 41% will be taxed on your spouse. The salary will need to be commensurate with the duties and within the minimum wage legislation.

Profit extraction

- *Pension contributions*

  Subject to limits these are fully deductible, but you need to accept that this means you will have no access to the cash until you retire.

- *Capital Gains*

  Under the present regime applying to 5 April 2008 if you wish to sell your business or the shares in your company you may qualify for full business asset taper relief. This means after two years ownership 75% of any capital gain is exempt from tax ie for a higher rate taxpayer an effective rate of tax of only 10%. After 6 April 2008 taper relief is abolished and a flat rate of capital gains tax of 18% is likely to be introduced. The changes are still being legislated but there is also likely to be an Entrepreneur's relief meaning an effective capital gains tax rate of 10% on gains on business assets up to £1M.

- *Dividends*

  For a higher rate taxpayer the further tax due on a dividend is an extra 25% of the net cash received. A basic or lower rate taxpayer has no further liability.

- *Salary/Bonus*

  Consider the payment of a salary or bonus. Provided this is subject to PAYE within nine months of the year-end it can be recognised in the accounts of a company as a deductible expense.

Enterprise Management Incentives

Incentivise your existing employees by offering them the option (but not the requirement) to purchase shares in your company at some point in the future. This might typically be on satisfaction of certain criteria eg meeting sales targets or upon sale of the business to third party. Provided the options are exercisable at the market value of the shares on grant no income or national insurance is due. Upon a subsequent sale, the profit is then only taxable as a capital gain at 18% (after 6 April 2008) rather than a typical employees marginal rate of 41% (including income tax and national insurance).

FAMILY/PROPERTY

Second Homes

If you own two properties both of which could potentially be considered as a home consider electing for the second property to be your principal private residence for a short period. Although you will lose the benefit of the principle private residence exemption for this short period the second residence would then automatically qualify for the exemption from capital gains tax for the last 36 months of ownership.

Asset Distribution

If assets are distributed equally between husband and wife, this will equalise your estate for inheritance tax purposes and help minimise the final liability.

Consider transferring income-producing assets to the spouse with the lowest income to minimise the overall tax bill and maximise use of their personal allowances and reliefs.

Holiday Homes

Certain types of let properties are given generous tax treatment. Although the relief is known as "furnished holiday lettings relief" the property does not actually have to be in a typical holiday area but could be anywhere in the UK. The main relief is that the losses often arising on such properties can be offset against your other sources of taxable income.

Secondly, for capital gains tax purposes the property is treated as a business asset. This means for sales up to 5 April 2008 the generous rates of business asset taper may apply, reducing any capital gains to an effective rate of 10% after two years of ownership. For sales after 6 April 2008 the new draft rules as explained above will be a likely effective tax rate of 10% on the first £1m and 18% standard capital gains tax rate thereafter.

The main conditions for the relief to be available are:

- the property is available for letting to the public on a commercial basis (ie with a view to profit) for 140 days or more during the tax year
- it is actually let for at least 70 days
- property cannot normally be let to the same person for more than 31 days at one time.
- overseas non UK properties do not qualify

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