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Specialists in Business Development and Corporate Finance

The Importance of Pension Reviews

In the current investment climate, it is completely understandable why so many people are losing faith with their existing pension schemes and even more reluctant to invest any more money into them.

However, this is probably the most important time for those who already have a pension to review them and for those without a pension to seriously consider the benefits of starting one.

When reviewing your own finances, I'm sure there will be a list of the direct debits you pay out monthly and certain ones you'll more readily cut back on to realise a few additional pounds over the next few months.

Which will go first? The gym membership? The Sky television subscription? The golf membership? That extra holiday abroad you were planning to escape the British winter? Or, more likely, the payment into your personal pension.

According to a poll published by the global insurance group AXA, an estimated 1.5 million people will take a pension contribution holiday collectively reducing the final value of their retirement funds by nearly £35 billion.

Whilst taking a pension holiday might seem an easy way to save cash in the short term, it could have a severe long-term impact on an individual's quality of life in retirement.

Cutting pension contributions is always a false economy and will certainly cost you much more to replenish your funds in the future compared to what you will save in the short term.

As an example, an individual aged 35 paying £200 a month into a pension and retiring at age

65 might expect a pension fund of £134,000 once the financial world returns to normality.

However, if he or she has started two years later, the fund could be £115,000. A difference of £19,000 is a very heavy penalty to pay for simply delaying for two years - a saving of £4,800 today for a reduction of £19,000 in the pension fund later on.

Another factor to be considered is the severe downturn in prices throughout the world's stock markets which is reflected in the valuations of pensions, shares and ISAs.

The contrast in the retail and pension worlds is interesting. While shoppers are happily chasing generous price reductions, the same could not be said of investors in the stock market where you can find prices at 30 per cent less than they were a year ago.

In a volatile market it is understandable to be concerned about the value of your investments. However, it is possible to make market volatility work for you. Regular monthly investing, or drip-feeding a lump sum into an investment can work to your advantage in volatile markets.

This is known as pound cost averaging. If the market does fall then you know your next monthly investment will benefit from the higher number of shares you will be purchasing at a lower price. In a rising market this will result in fewer shares being purchased but then your existing investments should be showing a profit.

Given tighter credit conditions, it seems likely that pension payment holidays will become increasingly prevalent as the immediate pressures of servicing mortgages and dealing with credit card debts take their toll. But you might be wiser avoiding this route.

The message is don't stop paying into your pension fund if you are able to weather the present economic crisis. And if you are able to purchase more shares in your pension fund at a time when unit prices are lower you will be in a good position in later years.

Above all else, there are only three words you need to consider in the current climate, review, review and review!

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Healthy warning

New rules on tax relief for business expenditure on cars

Self employed or employed - changes in practice

Get the giving habit

Make your losses go further

Termination payments





Healthy warning

New legislation in the form of the Health and Safety Offences Act 2008 came into force in January 2009. It increases the penalties and provides the courts with greater sentencing powers for those who flout health and safety legislation.

Why?

It had been generally considered that the level of fines for some health and safety offences was too low. These changes will ensure that sentences can now be more easily set at a level to deter businesses that do not take their health and safety management responsibilities seriously and further encourage employers and others to comply with the law.

The Act raises the maximum penalties that can be imposed for breaching health and safety regulations. The range of offences for which an individual can be imprisoned has also been broadened.

The effect of the Act is to:

- raise the maximum fine which may be imposed in the lower courts to £20,000 instead of £5,000 for most health and safety offences;
- make imprisonment an option for more health and safety offences in both the lower and higher courts; and
- make certain offences, which currently can only be tried in the lower courts, able to be tried in either the lower or higher courts.

For further information on health and safety matters: www.dwp.gov.uk

New rules on tax relief for business expenditure on cars

As you may be aware, the government is introducing new rules for capital allowances on business cars. The new rules apply to expenditure incurred on or after 6 April 2009 (1 April 2009 for companies). The 100% immediate write off for expenditure on cars with CO2 emissions of 110 grams per kilometre (g/km) or less remains but the old 'expensive car' rules are abolished.

The rate of annual writing down allowance (WDA) for expenditure on other cars will be determined by the car's CO2 emissions. The new rules provide that expenditure on cars with CO2 emissions:

- not exceeding 160g/km will be pooled in the 20% pool: and
- over 160g/km will be pooled in the 10% pool.

The big issue here is that, because the cars are pooled, there will be no immediate relief on sale for any balance of expenditure unrelieved at that point (a balancing allowance) – the remaining balance will instead continue to be written off at 10% or 20%.

Cars with private use

Expenditure incurred on a car which is provided or used partly for non-business purposes will continue to be allocated to a single asset pool. These rules generally apply to cars used by proprietors of self-employed businesses. The WDA of this single asset pool will be determined by the CO2 emissions of the car as above and the allowances will continue to be adjusted so that only the proportion of the allowances relating to business use is allowed. As the car is in a pool of its own, a balancing allowance may be due on disposal.

Cars acquired before 1 or 6 April 2009

Expenditure on cars costing less than £12,000, incurred before either the 1 or 6 April 2009, will continue to be pooled in the main 20% pool, regardless of the car's CO2 emissions.

Expenditure on cars costing more than £12,000 and incurred before either the 1 or 6 April 2009 will continue to be allocated to a single asset pool and subject to a 20% WDA. This treatment will continue for a transitional period of five years or longer depending on the accounting period of the business. For these cars the WDA will continue to be capped at £3,000 per annum for each period. If the car is disposed of before the end of the transitional period,

a balancing allowance may be available. However, any balance of unrelieved expenditure in the relevant pool after the transitional period will be added to the main 20% pool.

Example

A company bought a car for £35,000 in its accounting period ending 31 December 2008. This expensive car went into a single asset pool on acquisition.

As it is pre-April 2009 expenditure, allowances will be calculated under the old rules for the transitional period.

The transitional period will end on 31 December 2014 (the last day of the first accounting period to end after 1 April 2014). At 31 December 2014 any unrelieved expenditure will be transferred into the main 20% pool.

Expenditure on cars purchased prior to April 2009 and allocated to single asset pools, so that adjustments for non-business use can be made, will continue in single asset pools. These pools will continue to attract a WDA of 20% even after the transitional period has ended until the car is disposed of.

Leasing

Currently, a business faces a reduction in the amount of rental payments allowable as a tax deduction on the hiring of most cars if the retail price of the vehicle, when new, exceeds £12,000.

Where a lease commences on or after the 6 April 2009 (1 April 2009 for companies), the reduction in the amount of car lease rental payments will be applied only to expenditure on cars with CO2 emissions over 160g/km. The new rules will disallow a flat rate of 15% of the amount of the deduction that would otherwise be allowed.

So what to do next?

The main consideration if a business is acquiring a car in the near future will be whether to incur the expenditure before or after 1 or 6 April 2009.

For expenditure after these dates, the critical factors will be two-fold:

- whether to buy or lease
- the emissions of the vehicle.

The changes are not straightforward. Please do get in touch if you would like to discuss these matters further.



Self employed or employed - changes in practice

In the case of Demibourne, the company was required to pay all the PAYE tax due to the reclassification of an individual as an employee. HMRC practice over many years had been, provided that the individual had paid income tax on a self employed basis, to treat this as tax due on earnings and to allow the employer a credit against the overall outstanding liability.

In Demibourne, HMRC sought a full settlement of the tax, with no set-off for the tax already paid by the individual on a self employed basis. The Commissioner upheld this approach – the employer could not claim a set-off for any tax paid by the individual.

New regulations have been introduced from April 2008 to help address this issue. Broadly, the new power allows HMRC to make a direction to transfer part of the employer's tax liability to the newly-classed employee in given circumstances.

The rules will apply if the amount of the payment which should have been taxed as employment income has been included in a self assessment made by the individual or, although a self assessment has not yet been made for the year in question, tax has been paid in relation to the income in question, either as a payment on account or as a subcontractor deduction.

Where certain 'trigger' events occur HMRC will consider the transfer of the tax liability. Such trigger events include situations where HMRC formally assess the employer for all the tax concerned and also where the employer agrees that the individual in question should be 'on the books'. The new rules are capable of applying to previous tax years where certain conditions are met.

Once any transfer has taken place, the employer will be relieved of the tax liability transferred but will remain liable for any tax in excess of the amount covered by the transfer. The individual will have a very limited right of appeal.

In practice, this means the employee's self assessment for the year(s) in question can remain undisturbed. The tax already assessed or paid via self assessment will equal the amount of tax transferred.

However, the employer will remain potentially liable to penalties on the full

amount of tax which should have been deducted, or accounted for, under PAYE. The extent to which penalties are charged will depend on the degree of culpability of the employer. Interest will also be charged on any balance of tax remaining payable by the employer after a transfer has been made.

Whilst these rules are better than before, some important issues still remain:

- HMRC are still vigorously pursuing the employed/self employed issue; and
- HMRC may attempt to go back several years to address any such problem.

It is important to ensure that any workers paid on a self employed basis are exactly that – self employed. Now may be an opportune time to review the working arrangements of such individuals to ensure a clean bill of health. If this is an area where you need to know more, please do contact us.

Get the giving habit

Even in the current recessionary times house prices are significantly higher than they were a decade ago – the Halifax Index for the average value of a property in November 2008 was £163,000 compared to £73,000 in 1998. For many couples this means that they have a significant inheritance tax (IHT) problem. If the value of the joint estate of a married couple is over £624,000 then IHT will be payable.

Some people would consider this to be someone else's problem. Others recognise that it is a problem but there is apparently not a lot they can do about it because the major asset in the estate is the family home and they need to continue to live in it. Whilst some planning may be possible with the family home it is often complex and expensive. Is there anything else that can be done?

The answer is yes and it should not involve any major decisions. There are some important exemptions available for IHT and three in particular deserve a second look. Every individual has an annual exemption for IHT of £3,000. This can be used in the tax year and can be carried

forward for just one tax year where it can only be used after that year's exemption. It can cover gifts of cash or assets to any individual. It may not sound a lot but in tax terms it is worth £1,200 a year. Make sure that it is used for say ten years and each individual will have saved IHT of £12,000.

In addition to the annual exemption, you can make small gifts of up to £250 each to any number of other individuals in each tax year.

If you have some surplus income which is adding to the IHT problem then you could consider making regular payments say to children or grandchildren. If the gifts come out of income and do not impair your own standard of living they will be exempt under the so-called 'normal expenditure out of income' rules. The key is to establish a pattern of giving that can be considered as 'normal' and to do this as soon as possible. The sooner you start, the bigger the potential tax savings will be.

Please contact us if you require further advice to assist you with your estate planning.





Make your losses go further

Where a company makes a trading loss there are a number of ways in which the loss can be relieved against profits. Very broadly the rules allow an offset against:

- other profits in the same accounting period
- total profits in the preceding 12 month period
- trading income from the same trade in subsequent accounting periods.

The carry back provisions will be extended for companies for up to three years if a trading loss is made in an accounting period ending between 24 November 2008 and 23 November 2009. There will be no limit on the loss which can be carried back for one year, but the relief which can be carried back beyond that will be restricted to £50,000. If the loss making accounting period is less than 12 months the £50,000 cap will be reduced proportionately.

Example

Company A makes a trading loss of £130,000 for the year to 31 December 2008. Its total profits for earlier years were:

y/e 31 December 2007	£70,000
y/e 31 December 2006	£40,000
y/e 31 December 2005	£40,000

Losses of £70,000 can be carried back to the 2007 period without any limit. Under the new provisions the company would be able to take £40,000 of the loss back to the 2006 period and just £10,000 back to the 2005 period. This will leave £10,000 of the loss available for carry forward to future periods.

When can a company make a claim for loss relief?

The earliest time is after the end of the accounting period in which the loss is made and the claim is made by submitting a corporation tax return for the period.

When can a company get a tax repayment?

For existing loss provisions (eg the one year carry back), repayments will be made once the corporation tax return has been processed by HMRC. For the new loss relief provision, HMRC will accept a loss claim but will not repay the tax until after Budget Day 2009.

What about unincorporated businesses?

There are similar rules for unincorporated businesses but the loss must be made in an accounting period ending in the 2008/09 tax year. So a loss made in the 12 month period ending on 31 March 2009 will qualify but not a loss in a period ending 30 April 2009.

Please talk to us

If you are currently making losses, please talk to us about these provisions so that we may maximise your entitlement to loss relief and also help to obtain an early tax repayment. This is particularly relevant if you are an unincorporated business as we may need to consider changing your accounting date so that your current losses fall into the current tax year.

Termination payments

In these troubled economic times, more and more employees are losing their jobs. Even HMRC appear to be affected!

Payments connected with employees leaving their jobs may be tax free, or they may be taxable depending on the type of payment. It is an area that HMRC regularly check on and care needs to be taken. We provide below a table laying out the main situations. However, the table comes with a health warning - tax is never as simple as it seems.

Type of payment	Tax position
A contractual payment instead of a notice period being given (known as a PILON) or gardening leave, even if the employer has an option to pay.	Generally taxable as salary.
Payments on leaving where there is an expectation or that are customary.	Good evidence of expectation has to be established from documents and interviews before these can be taxed.
Where there is no entitlement or expectation to a PILON and the employer unilaterally dismisses the employee with less notice than the employee is entitled to.	As the employer has breached the contract a PILON in such circumstances represents damages for breach of contract and the first £30,000 may be tax free.
Instead of acting unilaterally, the employer and employee may reach an agreement to terminate without proper notice. A payment of a PILON is then made.	Where this is done before termination is in prospect, it is simply a variation in the terms of employment and any subsequent payment may be contractual and hence taxable. If it is done only as part of the process of termination, the payment may not be from the employment but from the agreed terms for its destruction and is dealt with as a damages payment ie the first £30,000 may be tax free. If the agreement settles an existing contractual provision, the payment may be taxable.
A statutory redundancy payment is exempt from liability to tax unless it exceeds £30,000.	In practice there is unlikely to be tax payable because most statutory payments are covered by the £30,000 exemption. However, all payments in respect of a termination must be added together in applying that exemption.
Statement of Practice 1/1994 explains that a lump sum payment for redundancy under a non-statutory scheme is exempt up to £30,000.	HMRC are prepared to comment on the tax position of such payments before they are made.

For more information on this area, please do get in touch.

Year End Tax Planning Supplement

Tax is a subject that excites very few people. It is easy to ignore awkward issues involving tax, such as those mentioned in this supplement. Don't - it could cost you dear. Instead, think of a regular review of your tax affairs (at least once a year) as an opportunity to reduce the taxman's take from your family.

The period leading up to the end of the tax year on 5 April is one of the best times to review your taxes and finances.

In this supplement we summarise the more important year end tax tips to help you identify areas that should be considered. As always we would be delighted to discuss with you the issues involved and any appropriate action you may need to take.



Income tax saving ideas for all the family

Married couples

Consider the split of income between husband and wife. A transfer of assets (which must be outright and unconditional) may serve to redistribute income and reduce or eliminate higher rate tax liabilities. For example it may be possible to save £9,000 or more a year by moving £40,000 of investment income from an income-rich spouse to one with no income. This level of tax saving is unlikely to be possible for many but significant savings can be made by much smaller transfers of income. Moving just £1,000 of savings income from a higher rate taxpaying spouse to one with income below the personal allowance (£6,035) may save £400 a year.

The tax treatment of married couples applies to same-sex couples who have entered into a civil partnership under the Civil Partnership Act. References to husband and wife should therefore be read to include civil partners throughout this supplement.

Income arising from assets owned jointly but in unequal shares is automatically taxed in equal shares unless a declaration is made to HMRC stating that the asset is owned in unequal shares. This election can be made on a Form 17 but must be made before the income arises.

Consider such a declaration when a new jointly owned asset is acquired. The exception to the equal splitting rule is dividend income from jointly owned shares in 'close' companies which is split according to the actual ownership of the shares. Close companies are broadly those owned by the directors or five or fewer people.

Income tax savings may be made if you are self-employed. Your spouse could be taken into partnership or employed by the business. This could be just as relevant for a property investment business producing rental income as for a trade or profession.

A spouse could be employed by the family company. However the level of remuneration must be justifiable and payment of the wages must actually be made to the spouse. The National Minimum Wage rules may also impact.

The proposed 'income shifting' rules are not being introduced as planned in the Finance Bill 2009. However the government has stated that the issue will be kept under review.

Children

Parents must remember that their children are also potentially within the tax system. It may be possible to utilise the children's personal allowances and starting/basic rate tax bands. However if income arising to a child but deriving from a parent exceeds

£100 gross a year it will be taxed on the parent while the child is unmarried and under 18. This rule applies to income arising from outright gifts made by parents as well as to income from trusts set up by parents.

National Savings Children's Bonus Bonds (for children under 16) are a means by which parents can provide capital for their children and which earn tax-free interest.

For children born since September 2002 a Child Trust Fund (CTF) has been introduced. The idea is to encourage tax efficient savings by family and friends and, with the government's help, to build a nest egg which the child can access once he or she reaches age 18. The government's initial contribution amounts to £250 (£500 for low income families) with further payments promised once the child reaches age seven. Other contributions of up to £1,200 per annum can be added to the fund and although there is no tax relief on making the contributions the fund is tax exempt.

Income which does use the child's personal allowance could be provided by:

- income derived from capital provided by relatives other than parents (grandparents, uncles, aunts etc)
- distributions from family trusts (set up by relatives other than parents)
- employing teenage children in the family business - remember there is now a National Minimum Wage of £3.53 per hour for 16 and 17 year olds.

Dividend income is not an effective way to utilise the personal allowance - the tax credits are not repayable. Ensure other sources of income are available to use the allowance.

And for those over 65

Taxpayers aged 65 and over are able to claim higher personal allowances. The benefit of these allowances is eroded where income exceeds £21,800. In such circumstances a move to capital growth or tax-free investments may preserve the higher personal allowances.



Deadlines looming for employers

Ignore them at your peril! Remember that in most instances interest will be charged on tax paid late and penalties will be levied if forms are late or incorrect.

19 April 2009 - Interest will run on any 2008/09 PAYE and NIC deductions not paid over by this date (22nd for electronic payments).

19 May 2009 - Employers' year end returns (P35 and P14) due for submission.

31 May 2009 - Employees must be provided with their P60 (certificate of pay and tax deducted).

6 July 2009 - Submission of P11Ds and P9Ds returning details of expenses paid and benefits provided to employees and directors. A copy of the P11D/P9D must also be given to each employee.

A dispensation, allowing certain items to be omitted from the forms, may be granted by HMRC.

19 July 2009 - Class 1A NIC for 2008/09 on most benefits provided to employees must be paid. Interest runs from this date on late payments, (22nd for electronic payments).

19 October 2009 - PAYE settlement agreement liabilities for 2008/09 due, together with Class 1B NIC (22nd for electronic payments).

Employers' action points

Contact us if:

- you have any concerns over the accuracy or completeness of your PAYE records
- you want help with electronic filing of any returns
- you need assistance with the completion of P11Ds or application for a dispensation.

Have you thought about:

- a PAYE settlement agreement as a useful way to account for tax on minor benefits provided to employees
- obtaining a dispensation.

National insurance issues

Entitlement to a state pension

Where a spouse is employed by the family business, the earnings are often kept below the national insurance threshold to avoid payment of contributions.

For 2008/09 it is worth paying earnings of between £90 (the lower earnings limit) and £105 (the earnings threshold) per week. There will be no employers' or employees' contributions due on the earnings but entitlement to a state retirement pension and certain other benefits is preserved. Note that the limits will be £95 and £110 per week in 2009/10. A PAYE scheme would be needed to establish the employee's entitlement to benefits.

Small earnings exemption

For the self-employed there is a requirement to pay a flat rate contribution (Class 2). If your profits are low you can apply for exemption. The limit for 2008/09 is £4,825. If contributions have been paid for 2008/09 and it subsequently turns out that earnings are below £4,825 a claim for repayment of contributions can be made. The deadline for this claim is 31 January 2010 for overpayments during 2008/09. On the other hand it may be advisable to pay the contributions in any event in order to maintain a contributions record as they are only £2.30 a week (£2.40 for 2009/10). The alternative voluntary Class 3 contributions are £5.80 a week higher for 2008/09 and £9.65 higher for 2009/10!



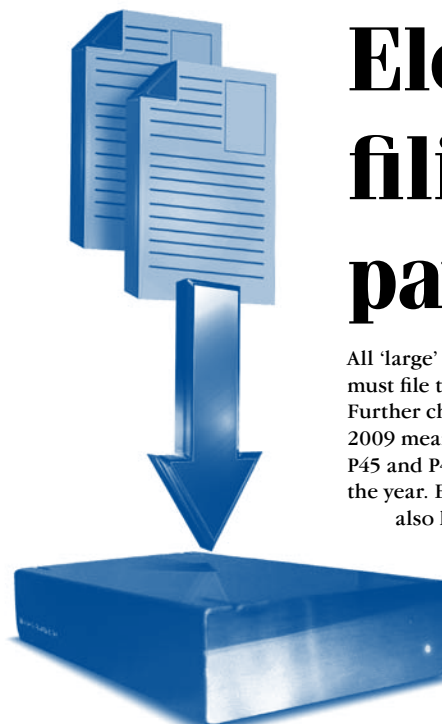
Benefits for employees

Much of the planning for employment income (including directors' remuneration) focuses on the provision of tax efficient benefits. However most taxable benefits give rise to employers' (but not employees') national insurance.

To discuss remuneration packages and the provision of benefits further, please contact us.

Electronic filing and payment

All 'large' employers- those with at least 50 employees must file their end of year returns electronically. Further changes for large employers from 6 April 2009 mean that certain other in year forms such as P45 and P46 will have to be submitted online during the year. Employers with fewer than 50 employees will also have to start online filing for 2009/10 but not 2008/09. There are tax-free incentives for early take up. Very large employers (those with at least 250 employees) must also pay their PAYE electronically. Contact us if you would like help with your payroll procedures.



Capital gains tax

- could you benefit from planning ahead?

Each individual has an annual exemption for Capital Gains Tax (CGT) purposes. This is £9,600 for 2008/09. Review your chargeable assets and consider selling before 6 April 2009 to utilise the exemption. Note that husband and wife both have their own annual exemption. A transfer of assets between them may mean they can both make gains of £9,600 tax-free. Bed and breakfasting (sale and re-purchase overnight) of shares is no longer tax-effective. However sale by one spouse and repurchase by the other, or sale outside an ISA and repurchase inside, may achieve the same effect. This can be done either to utilise the annual exemption or to establish a capital loss to set against gains.

Children also have their own annual exemption and this may be utilised by investing for capital growth.

Traded or 'second hand' endowment policies (SHEPs) can also produce gains to utilise the annual exemption. An unwanted policy is acquired and paid to maturity. On maturity, the proceeds payable less the acquisition cost and premiums paid creates a capital gain.

Careful planning could lead to £9,600 of gain per family member being realised every year tax-free.

The system of CGT has radically changed from 6 April 2008.

The changes include:

- taper relief and indexation for an individual are no longer available to reduce capital gains

- an entrepreneurs' relief is available on certain qualifying business gains giving an effective 10% tax rate on the first £1 million of such gains and
- a flat rate of CGT of 18% will apply to any other chargeable gains.

Capital gains may be deferred in certain other circumstances such as investing in the Enterprise Investment Scheme.

If you have two homes you may be able to make elections to maximise the 'main residence' exemption. Talk to us if you use more than one property as a residence.

Remember that capital losses can be established by making a claim where assets no longer have any value - a 'negligible value' claim.



Family companies

- maximising the potential, minimising the extraction costs

A director/shareholder of a family company can extract profits from the company in a number of ways. The two most common are by way of bonus or dividend. For every £1,500 net paid to the higher rate taxpaying individual, the cost to the company is £2,000 if a dividend is paid and £2,266 if a bonus is paid. This assumes the company is liable to corporation tax on its profits at the small companies rate of 21%. There are many issues to consider in making the decision but paying a dividend can often result in significant tax savings.

If the payment of bonuses to directors or dividends to shareholders is contemplated, careful thought must be given as to whether payment should be made before or after the end of the tax year. This will affect the payment date for any tax and may affect the rate at which it is payable. Remember that any bonuses must be paid within nine months of the company's year end to ensure tax relief for the company in that period.

Charity watch

- making the most of giving

To encourage charitable donations, the government has created a number of ways of securing tax relief on charitable donations.

Example 1 - Alex makes a one-off donation under Gift Aid. The scheme potentially applies to any charitable donation large or small, whether regular or one-off. The charity is currently able to claim basic rate tax of 20% back from HMRC plus a further 2% supplement. As a higher rate taxpayer Alex will also qualify for 40% tax relief on the gift. Tax relief against 2008/09 income is also possible for charitable donations made between 6 April 2009 and 31 January 2010 providing the payment is made before filing the 2008/09 tax return.

Example 2 - Ben agrees to a regular deduction from his salary under the Payroll Giving scheme. There is no upper limit on the amount that can be donated in this way. His tax bill is reduced as his PAYE liability is calculated after deducting the charitable donation.

Example 3 - Camilla decides to leave a substantial bequest to charity in her Will. This saves inheritance tax at 40%.

Example 4 - David gives some quoted shares to a charity, on which there is a substantial unrealised capital gain. However no CGT arises on a gift to a charity. The charity can then sell the shares free of CGT providing it applies the proceeds for charitable purposes. Furthermore income tax relief is available to David on the value of the shares gifted, so the overall transaction is particularly tax efficient. The same rules apply to gifts of land and buildings.



Using tax efficient investments

Some investments benefit from a favourable tax status. We consider the main ones below. Any investment decision should involve consideration of all the relevant factors, including the risk level and the need for income and capital in both the short and long term, as well as the tax advantages.

Individual Savings Accounts

Individual Savings Accounts (ISAs) provide an income tax and capital gains tax free form of investment. The maximum investment limits are set for tax years. Therefore to take advantage of the limits available for 2008/09 the investment(s) must be made by 5 April 2009.

An individual aged 18 or over may invest in one cash ISA and one stocks and shares ISA per tax year within the following limits:

- a cash ISA allows you to invest up to £3,600 with one provider only, in any one tax year
- a stocks and shares ISA allows you the option to invest up to £7,200 (per tax year) with one provider in any one tax year
- however if you want to invest in both then the stocks and shares ISA investment should be capped so that overall you do not exceed the £7,200 limit.

16 and 17 year olds are able to open a cash ISA only.

Other investments

There is a wide range of **National Savings & Investment Bank (NS&I) products**, eg NS&I savings accounts, savings certificates and bonds. These are taxed in a variety of ways. Some, such as National Savings Certificates, are tax-free.

For those whose income may fall in the future, for example due to retirement, investments deferring income to a subsequent period may be attractive. For example **single premium life assurance bonds** and **'roll-up' funds** can achieve this effect.

The **Enterprise Investment Scheme (EIS)** allows new equity investment of up to £500,000 in any tax year in qualifying unquoted trading companies (including AIM). Income tax relief at 20% is available on the investment and capital gains tax exemption is given for shares held for at least three years.

Furthermore unlimited capital gains realised on the sale of any chargeable asset (including quoted shares, holiday homes etc) may be deferred by reinvestment in EIS shares. An added benefit is that after two years of ownership EIS shares will qualify for business property relief for inheritance tax purposes.

A Venture Capital Trust (VCT) invests in the shares of unquoted trading companies. An investor in the shares of a VCT will be exempt from tax on dividends (although the tax credits are not repayable) and on any capital gains arising from disposal of the shares. Income tax relief, currently at 30%, is available on subscriptions for VCT shares, up to £200,000 per tax year, if the shares are held for at least five years.

Pensions

- plan ahead don't take a chance on your future!

There are many opportunities for pension planning but the rules can be complicated. Furthermore the rules on the taxation of pensions changed very significantly in April 2006. The rules include a single lifetime limit (£1.65 million in 2008/09) on the amount of pension saving that can benefit from tax relief. This lifetime limit is measured when pension benefits are taken. There is also an annual limit on the maximum level of pension contributions (£235,000 for 2008/09, £245,000 for next year).

The pension industry receives bad press from time to time for a variety of reasons. However the tax relief on pension contributions, is still at 40% for a higher rate taxpayer, and this is attractive. Pension planning therefore forms an important part of a year end tax planning review.

The self-employed or those in employment where there is no company provided scheme obtain tax relief for payments under personal pension contracts. Individuals can obtain tax relief on contributions up to £3,600 (gross) per year with no link to earnings. This makes it possible for non-earning spouses and children to make contributions to pension

schemes. Further contributions can be made up to 100% of earnings. Earnings includes pay, benefits, trading profits and is generally referred to as net relevant earnings.

Different rules apply to those paying old style 'retirement annuity premiums' under policies that started before 1 August 1988.

Family company directors should consider making additional employer contributions to existing

company pension schemes. If a spouse is employed by the company, consider including them in the company pension scheme or setting up such a scheme for that purpose. Even where salary levels are modest, such a scheme can provide significant benefits, but as a result HMRC are keeping an eye out for unusual or 'excessive' contributions.

