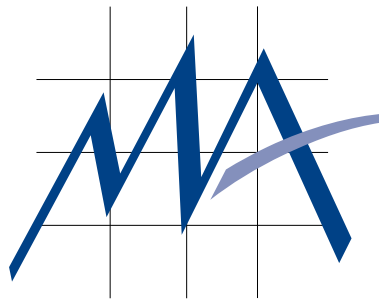


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BUSINESS NEWS

Let us take the headache out of your Payroll compliance issues.

With employer online filing now compulsory for almost all employers - let us do it for you.

With potential penalties for not paying your PAYE liabilities on time every time it is important to keep up to date and make accurate payments.

A new tax year and another round of form filling ...

Forms P11D, reporting benefits and expenses, also need to be completed for the tax year - we can offer a completion or review service for you.

To find out more about how we can help you alleviate the headache contact Julie Chapman at our Ilkeston office on 0115 932 3995



SPRING 2011

Business Records Checks

The need to keep proper records to comply with tax obligations and so avoid penalties has been increasingly emphasised in recent times following changes in tax law. HMRC have a range of guidance available which can be accessed at www.hmrc.gov.uk/record-keeping/index.htm and yet they have indicated that in the small and medium sized (SME) business sector there is still concern about poor business records and the resulting loss of tax.

In a recently issued consultation document known as Business Records Checks HMRC state:

'The loss of tax through poor record keeping, particularly in the current economic climate, cannot continue and HMRC is, therefore, determined to use the powers at its disposal to improve business record keeping and so reduce the loss to the Exchequer that stems from poor business records'.

They indicate that poor record keeping may be a problem in around 40% of all SME sized businesses. Accordingly HMRC have now announced in the consultation document that they are planning to check up to 50,000 SME business records annually in a new initiative commencing in the second half of 2011. They also state that they intend to impose penalties for significant record keeping failures as a means of bringing about an improvement in record keeping.

The consultation itself is not about whether HMRC should have the powers to check business records, or the penalties which ensue for failure as these powers and penalties

already exist. Rather the consultation is concerned with implementing a programme that will establish:

- a clear understanding of record keeping obligations
- the level of penalties that significant record keeping failures should attract in order to change behaviour
- whether an SME should be allowed a period of time to make necessary changes to bring records up to standard before being penalised.

If you would like to discuss the nature and extent of record keeping requirements for your business please do not hesitate to contact us for further advice.



Avoiding travel turmoil

It is not just the physical battles of travelling during the winter months that can be problematic but also securing tax relief on those travelling expenses which continue to increase. Understanding the specific rules is vital to ensuring that HMRC challenges on motoring and related travel costs do not arise later!

The issue is often considered to be a problem area for employed individuals but this article focuses instead on the self-employed individual whether operating as a sole trader or as a member of a partnership.

What qualifies?

To qualify for tax relief, an expense must be wholly and exclusively incurred for the purpose of the trade. When an expense is incurred for a non trade or private purpose then it is not tax relievable. There will be situations where an expense is incurred for more than one purpose and modern practice may allow a deduction using apportionment where there is an identifiable part or proportion which is incurred wholly and exclusively for the trade. Fuel and other motoring costs are generally apportioned based on the ratio of business miles to total miles, so it is critical to distinguish a business journey from a private one. The most common example of a private journey is the cost of travel from home to work which is generally disallowed.

There are clearly some trades where home to work travel may be solely for the trade as there is no identifiable place of business operations. These are often referred to as itinerant trades. However, where there is an identifiable place of business operations, travel costs from home to that destination are not tax deductible as they are said to have a predominantly private purpose.

The site at which business records and equipment are kept and maintained does not necessarily equate to a place of business operations as a recent case has demonstrated.

Once a week, the taxpayer traded fast food from Chelford market. He had a trailer from which he operated and which he transported to the market. During the relevant period, the taxpayer also traded at two markets at Kendal and one at Blackpool.

The taxpayer stored his trailer, stock and items used for his work at a unit called the 'Showman's Yard' which was four miles from the taxpayer's home. There was also a workshop at the premises. Four days a week the taxpayer attended the Showman's Yard in order to clean and carry out repairs of his equipment.

On market days, the taxpayer went to the Showman's Yard, collected the trailer, transported it to the market, traded and returned it to the yard before going home. The same exercise was also performed by the taxpayer in respect of the Kendal and Blackpool markets.

HMRC accepted that the costs of travel from his home to the yard should be allowed but refused the mileage costs between home and the markets on the basis that the place of business was the market place, principally at Chelford but also at Blackpool and Kendal.

The Tribunal agreed that the place of business was the market place and disallowed the costs of travel from home to the market including the travel costs from home to collect the trailer and stock on market days.

The case shows that when considering whether travel costs are allowable or not it is vital to establish the exact nature of the trade and how business activities are organised. If you have any concerns in this area please do contact us.

The Bribery Act 2010

The Bribery Act is due to come into force in April 2011 and will be applicable not only to all UK businesses, including their overseas operations, but also overseas businesses conducting activities in the UK.

The Act will replace the UK's common law and statutory offences related to bribery. Obviously larger entities (British Aerospace comes to mind!) will need to assess the impact very carefully, but it will apply to every entity regardless of size.

Amongst other offences such as active bribery and passive bribery, the Act will introduce a new corporate offence which will be committed if a person associated with a commercial organisation (such as a company or partnership) bribes another person with the intention of gaining financial or other advantage. Any such organisation found guilty of the offence will be subject to an unlimited fine and its directors could face a prison sentence of up to 10 years. The only defence for the organisation is if it can demonstrate that it had 'adequate procedures' in place to prevent bribery.

However, the Act currently offers no guidance as to what constitutes 'adequate procedures' and it is for this reason that the Ministry of Justice delayed the implementation date of the 2010 Act to April 2011, to allow for public consultation on this matter. In mid January it was announced that the Act is being reviewed but it has been suggested changes are unlikely. There is a possibility of a further delay in the implementation date and it is thought that there may be some amendments to the eagerly anticipated guidance on necessary procedures.

A draft version of this guidance is currently available from the Ministry of Justice website. This proposes a principles-based approach, referring to the following six principles:

- risk assessment
- top level commitment
- due diligence
- clear, practical and accessible policies and procedures
- effective implementation
- monitoring and review.

The draft guidance also offers a series of case studies covering a variety of situations, including the use of business partners and hospitality.

The key step is almost certainly the proposed risk assessment and every business needs to consider what their risks might be from April 2011. In many cases the risk will be very low but where it is not, appropriate procedures will need to be designed.



– iXBRL deadline approaching fast

In 2006 Lord Carter reported on his review of HMRC online services. He recommended that all statutory business tax returns should be filed electronically by 2012 and significant progress has been made. The next major milestone, which is nearly upon us, concerns corporation tax returns.

All corporation tax returns (including form CT600, tax computations and company accounts) in relation to accounting periods ending after 31 March 2010 and submitted after 31 March 2011, must be filed online as paper returns will no longer be accepted. In addition, corporation tax and related payments must be paid electronically.

It is important to appreciate that compulsory filing will not change:

- who has to file a company tax return
- when the return has to be filed or the tax paid
- what is legally required to be filed as part of a company tax return.

So what is going to change?

Specifically CT600 returns will have to be submitted electronically and in XML (Extensible Markup Language) format together with the accounts and tax computations in iXBRL (Inline Extensible Business Reporting Language) format. In broad terms tags are used to define both the content and the structure of data and operate in a similar way to bar codes. There are many thousands of different tags which are pre-defined using special dictionaries known as taxonomies.

These formats are computer-readable data standards for financial reporting statements. Extensible Business Reporting Language (XBRL)

is being adopted by numerous governments, regulators, companies and organisations across the world. However, XBRL is only machine readable whereas iXBRL is both machine and human readable so HMRC can see what you intended to display.

Most accountants in business or practice will rely on support from:

- commercial accounts production software
- corporation tax software
- HMRC online filing tool (suitable for straightforward situations only)
- template based workbooks
- conversion software
- outsource providers.

HMRC have recognised that this is a fundamental change to corporation tax compliance and appreciate that not everyone will get it right first time. They have indicated that they will take a sympathetic approach to penalties in the first two years of implementation where there is a reasonable excuse and reasonable care has been undertaken.

If this is a matter where you require further information or advice please contact us.



Child savings accounts

For children born before 3 January 2011, a Government voucher was issued to open a child trust fund (CTF) account. This capital would then be invested in either cash or shares, with returns being tax free. The idea behind these accounts was to provide all children with a 'nest egg' for when they reached adulthood. Extra vouchers were issued when children turned 7, but these were withdrawn from 1 August 2010.

Vouchers at birth will not be issued for children born on or after 3 January 2011. However, any existing vouchers which have not yet been used to open an account remain valid. Existing accounts remain open and the tax free status will still apply. In addition parents, friends and family can contribute up to £1,200 in total per year. The registered contact can change the trust fund account type or provider at any time. The child can do this once they turn 16. When the child turns 18 the account stops being a CTF account and the money can be withdrawn or reinvested.

See www.childtrustfund.gov.uk for information.

So how can parents save for their children born after 2010?

Well, the Government is to introduce a new 'Junior ISA' to replace the CTF account. These

new accounts will provide parents with a simple and tax free way to save for their children but without any contributions from the Government. The key features of the new account will be:

- All returns will be tax free.
- Funds placed in the account will be owned by the child and will be locked in until the child reaches 18.
- Funds can then be withdrawn without losing any of the tax benefits.
- Investments will be available in cash or stocks and shares.
- Annual contributions will be capped, although the limit has not yet been set.

The new accounts should be available in autumn 2011. Eligibility will be backdated from then to

ensure that no child born after the withdrawal of the child trust fund vouchers will miss out on a tax free savings opportunity.

The key advantage of parents making contributions into a CTF account or a Junior ISA is the combination of tax free status and capital growth. More significant capital growth may be realised with a stocks and shares investment rather than cash investment alone.

If a parent instead provides capital in an ordinary bank account or makes share investments for their child, annual income in excess of £100 will be treated as taxable income of the parent. It therefore follows that significant tax savings could accrue over the life of a CTF or Junior ISA account.

Class 2 National Insurance Contributions (NIC) – the new payment arrangements

Class 2 NIC will be payable by the self employed at a flat rate of £2.50 per week in 2011/12. Currently, Class 2 NIC are paid by quarterly account billing or by monthly direct debit. This is set to change in 2011/12, to bring it in line with payments of income tax and Class 4 NIC.

There will be no collections of Class 2 NIC payments from April 2011 until August 2011. Payments will commence in August from when a monthly direct debit will be taken. This means that by January 2012 six instalments will have been paid, equal to half the liability for the year. By 31 July 2012, the liability for the year will have been paid in full. Unlike income tax and Class 4 NIC there will be no balancing payment on 31 January 2013, as Class 2 is a set amount and does not need to be estimated.

There will be an alternative option to pay Class 2 NIC by two six-monthly direct debits, one on 31 January in the tax year and one on 31 July following the end of the tax year, instead of paying monthly direct debits. For 2011/12 this means the first payment will be due on 31 January 2012 and the second on 31 July 2012. The amounts of the monthly direct debits will vary between £10 and £12.50. The six-monthly payments will be £65 each.

Other NIC changes

The rates and limits for NIC generally are changing from 6 April 2011. The new rates and limits can be found at hmrc.gov.uk/rates/nic.htm

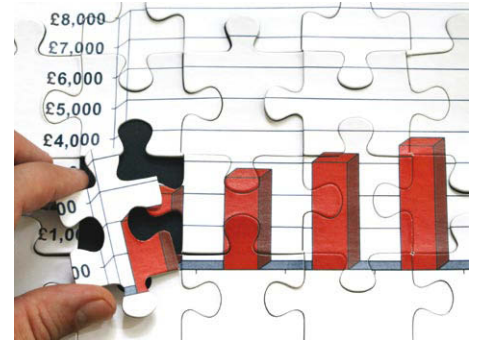
Employee salary (employee NIC only)	2010/11	2011/12
£20,000	£1,571	£1,533
£50,000	£4,259	£4,380
£100,000	£4,759	£5,380
Self employed profits (Class 4 NIC only)		
£20,000	£1,143	£1,150
£50,000	£3,114	£3,323
£100,000	£3,614	£4,323

Due to the increase in the 0% band for Class 1 NIC, employees earning up to £23,800 will be paying less NIC in 2011/12 than in 2010/11.

Employees earning above this limit will see an increase in their NIC bill.

For the self employed, those with profits up to £19,000 will be paying less Class 4 NIC in 2011/12 than in 2010/11. Those with higher profits will see a rise in their Class 4 NIC liability.

If you require any further information about the NIC changes for 2011/12 do contact us.



Counting the cost

The rate of corporation tax your company pays not only depends on the level of profit it makes but also on the number of companies that are associated with your company.

For example, if a single Company S has annual profits of £200,000 it will pay corporation tax at the rate of 20% from 1 April 2011. This means that the corporation tax due on those profits, assuming they relate wholly to the year to 31 March 2012, will be £40,000.

Higher rates of corporation tax apply on profits in excess of £300,000 and £1.5 million. For profits between £300,000 and £1.5 million the effective corporation tax rate is 28.75% and for profits in excess of £1.5 million the rate is 27%. Both rates also apply from 1 April 2011.

The impact of associated companies

If a company has associated companies, the amount of corporation tax may be increased. This is because the profit thresholds of £300,000 and £1.5 million must be shared equally between the company and its associated companies. For example when a company has two associated companies, then there are three companies in total. This means that the corporation tax rate of 28.75% applies between £100,000 and £500,000 and then 27% thereafter. If this applied to Company S its corporation tax due would increase to £48,750 (20% x £100,000 + 28.75% x £100,000).

What is an associated company?

A company is associated with another company if one of them has control of the other or if both are under the control of the same company or person(s).

The shares of direct relatives, business partners in certain situations and some trustees can be attributed to the person for the control test. In a situation where spouses each own separate companies their shares are attributed to the other with the result that both companies are treated as controlled by the same person. This means that the two companies are deemed associated even where they are in all other respects independent operations.

The precise application of these so called attribution rules in other situations can be complex so professional advice is recommended in interpreting when and how to apply them.

Changes ahead

However, a change to the associated company rules to be included in the Finance Bill 2011 may at least offer some relief to spouse controlled companies with effect for accounting periods ending on or after 1 April 2011.

It is proposed to amend the circumstances in which rights held by linked persons are attributed to each other to establish control. Attributions will only be made where there is 'substantial commercial interdependence' between the businesses being run in the companies. So where spouses each separately control their own company and there is no commercial interdependence between the companies, each company will have the use of their own profit limits.

There will clearly be many small and medium sized companies where family shareholding attributions could deem companies to be associated. The identification of whether there is substantial commercial interdependence may therefore be vital for the operation of the correct corporation tax rate.

When considering whether there is 'substantial commercial interdependence' HMRC will have regard to the degree of financial, economic or organisational links which exist, or have existed, or might be expected to exist between the relevant activities/companies involved.

If you consider these matters may affect you please do not hesitate to get in touch.

Year End Tax Planning

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.

Here is a summary of 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.

Tax saving tips for the family

Married couples

Each spouse is taxed separately, and so it is an important element of basic income tax planning that maximum use is made of personal reliefs and the starting and basic rate tax bands. Given that the personal allowance cannot be transferred between spouses it may be necessary to consider gifts of assets (which must be outright and unconditional) to distribute income more evenly. Currently a transfer of just £1,000 of savings income from a higher rate (40%) taxpaying spouse to one with income below the personal allowance (£6,475) may save up to £400 a year. For those paying the additional rate of tax (50%), which applies to those with taxable income above £150,000, the saving may be £500 a year.

Income from jointly owned assets is generally shared equally for tax purposes. This applies even where the asset is owned in unequal shares unless an election is made to split the income in proportion to the ownership of the asset. The exception 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.

Tip

If you are self-employed or run a family company, consider employing your spouse or taking them into partnership as a way of redistributing income. This could be just as relevant for a property investment business producing rental income as for a trade or profession.

Comment

Care must be taken because HMRC may look at such situations to ensure that they are commercially justified. If a spouse is employed by the family business, the level of remuneration must be justifiable and the wages actually paid to the spouse. The National Minimum Wage rules may also impact.

The term spouse includes a registered civil partner, in this supplement.

Those aged 65 and over

Taxpayers aged at least 65 should consider how to make full use of the available age allowances. The higher allowances are gradually withdrawn once income exceeds £22,900.

Tip

Consider switching to non-taxable or capital growth oriented investments to avoid losing out on allowances.

Children

Children have their own allowances and tax bands. Therefore it may be possible for tax savings to be achieved by the transfer of income producing assets to a child. Generally this is ineffective if the source of the asset is a parent and the child is under 18. In this case the income remains taxable on the parent unless the income arising amounts to no more than £100 gross per annum.

Tip

Consider transfers of assets from other relatives (eg grandparents) and/or employing teenage children in the family business to use personal allowances and the basic rate tax band.

Remember that children also have their own capital gains tax (CGT) annual exemption (£10,100). It may be better for parents to invest for capital growth rather than income.

For children born from September 2002 a Child Trust Fund (CTF) was introduced. The idea was to encourage tax efficient savings by family and friends, with the government's help, to build a nest egg which the child can access once he or she reaches the age of 18. Although government contributions have now ceased, 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.



...continued from page 1

New Junior Individual Savings Accounts are to be introduced from autumn 2011. These accounts should allow parents, other family members or friends to save tax free for a child. There will be a cap on the amount of contributions.

Non-taxpayers

Children or any other person whose personal allowances exceed their income are not liable to tax. Where income has suffered a tax deduction at source a repayment claim should be made. In the case of bank or building society interest, a declaration can be made by non-taxpayers to enable interest to be paid gross (form R85).

A 10% tax rate may apply to savings income. If the only or first source of taxable income is bank or building society interest, then the first £2,440 is liable at only 10%. If 20% tax has been deducted at source a repayment may be due.

Tip

Tax credits on dividends are not repayable so non-taxpayers should ensure that they have other sources of income to utilise their personal allowances.

Family companies

If the payment of bonuses to directors or dividends to shareholders is under consideration, give careful thought as to whether payment should be made before or after the end of the tax year. The date of payment will affect the date tax is due and possibly the rate at which it is payable.

Tip

Remember that any bonuses must generally be provided for in the accounts and actually be paid within nine months of the company's year end to ensure tax relief for the company in that period.

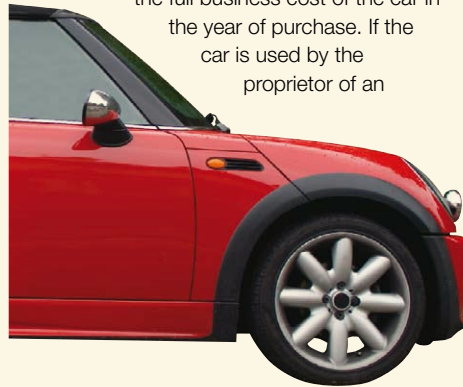
Careful planning before 5 April 2011 may be particularly useful for individuals with high incomes. The effect of deferring payments may save the personal allowance for those with an income in excess of £100,000 and 50% tax for those with an income in excess of £150,000.

Alternatively, consider the payment of an employer's pension contribution by the company. This is generally tax and national insurance free for the employee (but see pension section later). Further, the company should obtain tax relief with no employer national insurance cost, provided the overall remuneration package is justifiable.

Employer provided cars and fuel

Employer provided car benefits are calculated by reference to the CO₂ emissions and the car's list price. The level of business mileage is not relevant. The greener (environmentally!) the car, the lower the percentage charge. No charge currently applies for an electric car with other cars ranging from 5% to 35% of the list price of the car.

Businesses purchasing 'green' cars with CO₂ emissions not exceeding 110 grams per kilometre (g/km) can generally write off the full business cost of the car in the year of purchase. If the car is used by the proprietor of an



unincorporated business the allowances will be restricted to take account of the proportion of private use. For cars with CO₂ emissions in excess of 110g/km, a lower annual allowance is available. This is 20% for cars with emissions up to 160g/km and 10% for those which exceed 160g/km.

Tip

Check your position to confirm that an employer provided car is still a worthwhile benefit. It may be better to receive a tax free mileage allowance up to 40p per mile for business travel in your own vehicle. If an employer provided car is still preferred, consider the acquisition of a lower CO₂ emission vehicle on replacement to minimise tax cost.

Where private fuel is provided, the benefit charge is also based on CO₂ emissions. You should review the arrangements to ensure no unnecessary tax charges arise.

Employers...the form-filling starts here

If you are an employer the end of the tax year marks the start of the form-filling season! Here's a reminder of important deadlines for sending information (and money!) to HMRC.

19 April 2011 (22 for cleared electronic payments) - Interest will run on any 2010/11 PAYE, NIC, student loan and CIS deductions not paid over by this date.

19 May 2011 - Employers' year end returns (P35 and P14s) due for submission.

31 May 2011 - Employees must be provided with their P60 (certificate of pay and tax deducted).

6 July 2011 - Submission of P11Ds and P9Ds for 2010/11 which show details of expenses paid and benefits provided to employees and directors. Employees must also be given a copy of their P11D/P9D by this date.

19 July 2011 (22 for cleared electronic payments) - Class 1A NIC for 2010/11 on most benefits provided to employees must be paid. Interest runs from this date on late payments.

19 October 2011 (21 for cleared electronic payments) - PAYE settlement agreement liabilities for 2010/11 are due, together with Class 1B NIC. Interest runs from this date on late payments.

Electronic filing and payment

All employers must file their end of year returns electronically. Employers with 50 or more employees also have to file certain 'in year forms' online. These include forms P45 and P46. Compulsory online filing of 'in year forms' will include small employers from 6 April 2011.

Large employers (those with 250 employees or more) must also pay their PAYE electronically and this is likely to be extended to smaller businesses in due course.

Talk to us if you are interested in using a PAYE settlement agreement to account for the tax due on minor employee benefits. It can reduce administrative hassle and save time!

Remember

Penalties are chargeable for late submission or incorrect returns.

Interest is due on late payments of PAYE, Class 1, 1A and 1B NIC, student loans and CIS deductions.

Penalties may apply if there is more than one late payment of monthly/quarterly PAYE payments for all employers from 2010/11 onwards. This includes Class 1, 1A and 1B NIC, student loans and CIS deductions.

Capital gains tax

From 23 June 2010 there have been significant changes to the system of capital gains tax (CGT) as follows:

- gains (after deduction of an annual exemption) are added to income to determine the rate of CGT
- Entrepreneurs' Relief (ER) may be available giving a 10% tax rate on the first £5 million of qualifying business gains, per individual, per lifetime
- an 18% rate applies to other gains to the extent that they fall into the basic rate band
- a 28% rate applies to remaining gains.

Please contact us to discuss any planned business or company share disposals so that we can help to establish the correct approach to secure the availability of any ER.

Annual exemption

The first £10,100 of gains made in 2010/11 are CGT free being covered by the annual exemption. Note that husband and wife both have their own annual exemption, as indeed do children. A transfer of assets between spouses may enable them to utilise their annual exemptions. Consider selling assets standing at a gain before the end of the tax year on 5 April to use the annual exemption. Bed and breakfasting (sale and repurchase) of shares is no longer tax effective but there are two variants which still work:

- sale by one spouse and repurchase by the other
- sale followed by repurchase via an ISA.

These techniques may also be used to establish a loss that can be set against any gains.

Two homes?

If you have two homes then consider making an election so that future gains on your 'main residence' are exempt from CGT. Talk to us if this is relevant for you.

Other ideas

A capital gain can be deferred if the gain is reinvested in the shares of a qualifying unquoted trading company through the Enterprise Investment Scheme.

A capital loss can be claimed on an asset that is virtually worthless. Where the asset is of 'negligible value' by 5 April 2011 the capital loss can be used in 2010/11.

Moving abroad can take you outside the CGT net. However it is clearly not a decision to be taken lightly and requires very careful planning. Please talk to us if this is an area of interest for you.

No CGT planning should be undertaken in isolation. Other tax and non-tax factors may be relevant, particularly inheritance tax in relation to capital assets.

Investments - are yours tax efficient?

There is a wide range of investments with varying tax treatments. We take a look at some of the main ones that have special tax rules.

WARNING

When choosing between investments always consider the differing levels of risk and your requirements for income and capital in both the long and short term. An investment strategy based purely on saving tax is not advisable.

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 each tax year, therefore to take advantage of the limits available for 2010/11 the investment(s) must be made by 5 April 2011.

An individual aged 18 or over may invest in one cash ISA and one stocks and shares ISA per tax year but limits apply.

A cash ISA allows you to invest up to £5,100 with one provider only, in any one tax year.

A stocks and shares ISA allows you the option to invest up to £10,200 (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 is capped so that overall you do not exceed the £10,200 limit.

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

Junior ISAs should become available in autumn 2011.

Other investments

National Savings and Investment bank (NS&I) products are taxed in a variety of ways. Some, such as National Savings Certificates, are tax-free.

Single premium life assurance bonds and 'roll up' funds provide a useful means of deferring income into a subsequent period when it may be taxed at a lower rate.

The Enterprise Investment Scheme (EIS) allows income tax relief at 20% on new equity investment (in qualifying unquoted trading companies) of up to £500,000 per tax year. Capital Gains Tax (CGT) exemption is given on qualifying shares held for at least three years.

Capital gains realised on the sale of any chargeable asset (including quoted shares, holiday homes etc) can be deferred where gains are reinvested in EIS shares.

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 shares in the VCT.

Income tax relief currently at 30% is available on subscriptions for VCT shares up to £200,000 per tax year so long as the shares are held for at least five years.

Second hand endowment policies (SHEPs) can be attractive. Purchasing a SHEP will give an initial cost plus subsequent premiums payable to maturity. On maturity a capital gain arises less the purchase price and premiums paid. It may be possible for each member of a family to use their CGT annual exemption in this way.

Finally, review your borrowings. Full tax relief is given on funds borrowed for business purposes.



Pension contributions

There are many opportunities for pension planning but the rules can be complicated. Anti-forestalling legislation applies in 2010/2011 which has further complicated this area.

The rules include a single lifetime limit (£1.8 million in 2010/11) on the amount of pension saving that can benefit from tax relief as well as annual limits on the maximum level of pension contributions (£255,000 for 2010/11). The single lifetime limit will be reduced to £1.5 million from 2012/13. The annual limit will be reduced to £50,000 for 2011/12. This limit includes employer pension contributions as well as contributions by the individual. Any contributions in excess of the limit are taxable on the individual.

Tax relief is currently available on pension contributions at the taxpayer's marginal rate of tax. Therefore a higher rate taxpayer can pay £100 into a pension scheme at a cost of only £60. An additional rate taxpayer can pay £100 in at a cost of only £50. Indeed for some individuals, due to the complexity of the tax system, the effective relief may actually exceed 50%.

However, for individuals with an income in excess of £130,000 in 2010/11 or in either of the preceding two tax years, special rules may apply to limit the tax relief on certain pension contributions.

With the inability of the government to provide adequate levels of retirement pensions widely acknowledged, it is more important than ever to provide for a secure old age.

All individuals, including children, can obtain tax relief on personal pension contributions (not retirement annuity premiums) of £3,600 (gross) annually without any reference to earnings. Higher amounts may be paid based on net relevant earnings (NRE).

Individuals can make pension contributions of up to 100% of their NRE in a tax year. Contributions must be paid during the tax year. There is no facility to carry contributions back to the previous tax year.

Directors of family companies should, as an alternative, consider the advantages of setting up a company pension scheme or, alternatively, arrange for the company to make employer pension contributions. If a spouse is employed by the company consider including them in the scheme or arranging for the company to make reasonable contributions on their behalf.

Giving to charity

Charitable donations made under the Gift Aid scheme can result in significant benefits for both the donor and the charity. Currently the charity is able to claim back 20% basic rate tax plus a 2% supplement on any donations and if the donor is a higher rate taxpayer the gift will qualify for 40% tax relief. Therefore a cash gift of £78 will generate a tax refund of £22 for the charity so that it ends up with £100. The donor will get higher rate tax relief of £19.50 so that the net cost of the gift is only £58.50.

With the introduction of the 50% additional rate of tax from 6 April 2010, the net cost of the gift in this example would be only £48.75 for an individual liable at this rate.

Tax relief against 2010/11 income is possible for charitable donations made between 6 April 2011 and 31 January 2012 providing the payment is made before filing the 2010/11 tax return.

Always remember to keep a record of any gifts you make.

It may also be possible to make gifts of quoted shares and securities or land and buildings to charities and claim income tax relief on the value of the gift. This may be tax efficient for larger charitable donations.



National insurance matters

If a spouse is employed by the family business it is probably worth paying earnings in 2010/11 of between £97 (the lower earnings limit) and £110 (the earnings threshold) per week. There will be no employer or employee contributions due on the earnings but entitlement to a state retirement pension and certain other benefits is preserved.

Tip

A PAYE scheme would be needed to establish the employee's entitlement to benefits.

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 2010/11 is £5,075. If contributions have been paid for 2010/11 and it subsequently turns out that earnings are below £5,075 a claim for repayment of contributions can be made. The deadline for this claim is 31 January 2012.

On the other hand as the contributions are only £2.40 a week for 2010/11 it may be advisable to pay the contributions in order to maintain a contributions record. The alternative voluntary Class 3 contributions are £12.05 a week in 2010/11!