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**The end of the year is fast approaching, and as it does, we know that the tax year end is just around the corner. We provide you with some end of year tax planning pointers to help you to minimise your tax liability.**

**Meanwhile, as Christmas creeps up, we take a look at the limits for Christmas shopping in non-EU countries, and the benefits of charitable giving at Christmas.**

## END OF YEAR TAX PLANNING POINTERS

Whether you are a business owner or a full time stay-at-home parent, there are measures you can take now to minimise your tax liability this tax year.

### Income tax saving for couples

Any personal allowance (£7,475 for 2011/12) that is not used at the end of a tax year cannot be carried forward. However, couples can make use of each other's unused allowances through methods such as transferring ownership of income generating assets (such as savings and investments). Couples can also jointly own income generating assets, where the income will automatically be split 50-50, unless otherwise specified, but the income paid must correspond to the proportion owned (this is only possible if you are married or civil partners).

## INSIDER • DEC 2011

### Extracting profits from a company

#### • Salary

National insurance contributions are expensive, but salary can be deducted from taxable profits in the company, so if profits are taxed at the marginal small companies rate (currently 27.5 per cent), there is very little difference between extracting profits by way of salary or dividend for higher rate taxpayers.

#### • Bonus

Where annual bonuses are payable, the bonus must be due and payable before the company year end, even if the specific amount has not been decided. This is necessary to benefit from tax relief against the profits of the period. The bonus must always be paid within nine months of the year end to secure the tax deduction in the company.

#### • Dividends

These are subject to a lower rate of income tax than other sources of income, though this is mitigated by the company not being able to claim corporation tax relief. The main advantage of payment by dividend as opposed to salary is that no national insurance is payable on dividends.

### Capital gains tax

As with income tax, each person has an annual exempt amount, which is wasted if not used. This currently stands at £10,600 for individuals and personal representatives. Any gains in excess of this limit are then taxed at 18 per cent up to the limit of the basic rate income tax band, and 28 per cent on gains above that limit. Couples should make sure that both limits are used by jointly owning, or transferring assets prior to a gain being made.

## Inheritance tax

Every year you have an annual exemption for gifts of up to £3,000, which if not used, may be useable in the next. This is the total of gifts in any tax year that are ignored in the event of the donor's death within seven years. It is important that you have an up to date Will in place, which takes into account the most up to date inheritance tax rules. For example, you are currently able to leave £325,000 worth of legacies without paying IHT, the equivalent of £650,000 for couples, but this allowance may well change.

## Savings and investments

The deadline for using all of your tax efficient saving and investment allowances is 5 April 2012. Anything you have not used will be lost. Current limits are:

- ISAs - £10,680 into a stocks and shares ISA, £5,340 of which can be put into a cash ISA. Please note that you are only allowed one of each type of ISA in one tax year, and while transfers from cash ISAs into stocks and shares ISAs are allowed, you cannot transfer stocks and shares ISAs into cash ISAs.
- Enterprise Investment Schemes (EIS) and Venture Capital Trusts (VCTs) – EIS schemes provide 30 per cent tax relief in 2011/12 on investments of up to £500,000. Investments can be carried back by up to one year provided the limit in the previous year was not reached. VCT investments offer tax relief of 30 per cent of the amount invested, with a limit of £200,000 in any tax year.

*A vital part of our role is to make sure that you are keeping your tax liability to a minimum. Please do not hesitate to contact us if you would like to discuss any areas of end of year tax planning.*

# YOUR MONEY

## Christmas shopping abroad – know your limits

Christmas is fast approaching, and as the Christmas shopping rush begins, HMRC has issued guidance on the limits to buying abroad. Whether you are jetting off to a non-EU country for a spot of shopping, or buying online from non-EU countries, there is a limit to how much you can buy before you have to pay import duty or VAT.

- Arriving in the UK by commercial sea or air transport from a non-EU country, you can bring in up to £390 worth of goods for personal use without paying customs duty or VAT (excluding tobacco and alcohol, which have separate allowances, and fuel). Arriving by other means, including by private plane or boat for pleasure purposes, you can bring in goods up to the value of £270. Above these allowances and up to £630, there is a duty flat rate of 2.5 per cent.
- Should you buy goods over the internet or by mail order from outside the EU, you will have to pay VAT if the value of the package is over £15.
- If the goods are over £135 in value, customs duty may also be due, although this will depend on what they are and where they have been sent from. Where, however, the actual amount of duty due is less than £9, this will not be charged.

- If someone sends you a gift from outside the EU, import VAT will only be due if the package is valued at over £40. To qualify as a gift, the item must be sent from one private individual to another, with no money changing hands.

Detailed information can be found here <http://www.hmrc.gov.uk/customs/arriving/arrivingnoneu.htm>

## Charitable giving at Christmas

If you are not sure what gift to give, don't forget that donating to charity is always appreciated by all involved. And, provided you are a taxpayer, and make a gift aid declaration, the charity benefits from gift aid.

The level of gift aid will depend on your income tax band, but all gifts made by taxpayers will automatically qualify for 20 per cent gift aid, and higher rate, and additional rate tax payers can claim the extra 20 or 30 per cent on their tax return.

## December's Money Facts

Current bank rate	0.5%
Quantitative Easing Scheme	£275 billion
Current inflation	5.0%