

If you've been a member of a pension scheme but you haven't paid £50,000 in each of the last 3 years, you can use the balance to justify a larger current contribution – so the absolute maximum is £200,000 gross.

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.

Example

Alex has an annual salary of £100,000 and is expecting a bonus of £150,000 in April 2012. If £50,000 is paid before 5 April, £5,000 tax is saved (40% instead of 50%).

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!

OUR SERVICES

Essex Abel are here to help guide you through the issues detailed in this guide or any other business or taxation issue you may have.

We offer a FREE initial consultation to discuss your individual requirements, from which we will be able to provide a clear and concise plan of action to address the issues discussed.

All our clients (whatever their size or needs) all have something in common – they receive the same professional, reliable, friendly, quality service that forms the basis of our core business values.

We offer an extensive range of services, including the following:

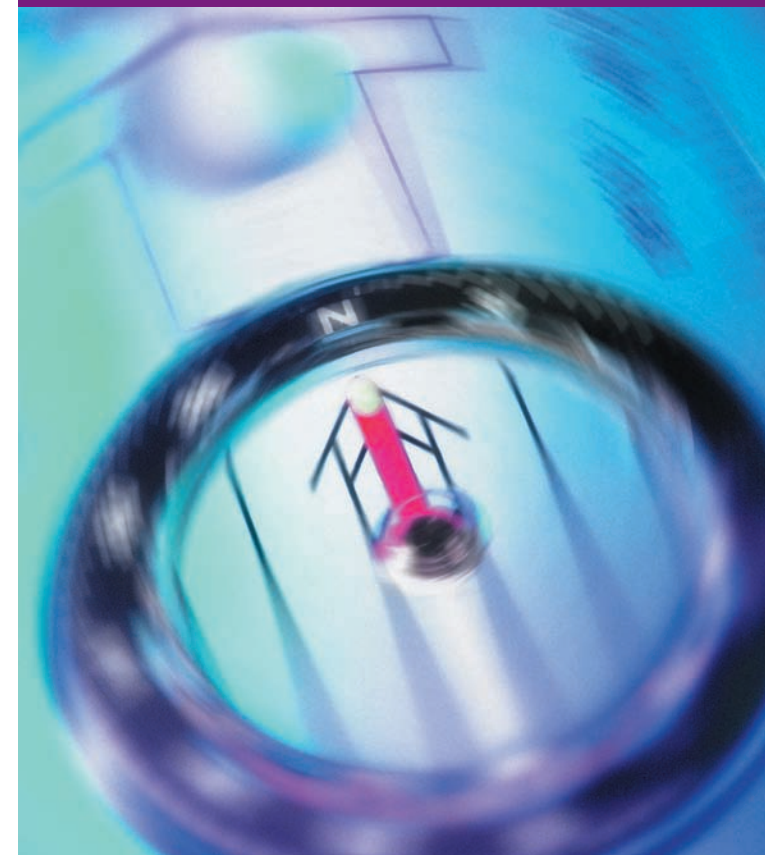
- Tax Planning Advice
- Tax Returns
- Business Start-up Support
- Business Plans & Forecasts
- Year End & Management Accounts
- VAT Returns & Bookkeeping
- Payroll & CIS Bureau
- Statutory Audits
- Company Secretarial Services

For further information on our services, please see our website www.essexabel.co.uk or contact us directly on 01509 267827

Essex Abel Ltd
4 Bank Court
Weldon Road
Loughborough
Leicestershire
LE11 5RF

Email: accountants@essexabel.co.uk

Year End Planning



Essex Abel
accountants • business advisors

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) 2012. Any excess over that gets the normal 20% relief for “writing down allowances”.

Buying something a few days before the accounting date, rather than a few days after, brings that big deduction forward a whole 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.

The £100,000 limit falls to £25,000 in April 2012 and the 20% WDA falls to 18%, so this year the timing of investment decisions is particularly important.

Example

John has profits in the period of £90,000. A few days before 31 March 2012, 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. These rates are falling to 18% and 8% in April 2012.

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

The last minute is not the best time to do anything, and certainly isn't the best time to make plans

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 are free of tax and National Insurance contributions for the employee provided they don't exceed £50,000 a 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.

UK resident individuals are entitled to put £3,600 into a pension plan each year even if they have no earnings and pay no tax. 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 higher rate tax on the gross amount: that's another £10,000, so £50,000 in the fund only costs you £30,000 after tax.