If you have earnings higher 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 expect to pay 40% tax on quite a lot of it – if you pay a pension contribution of £80,000, the Revenue will top it up with basic rate tax relief of £20,000, and you will wipe out any liability you would have had at 40% (up to another £20,000, so £100,000 in the fund only costs you £60,000 after tax).

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.

Changes coming
We already know about some future changes to corporation tax rates, capital allowances and tax charges on cars. That's another thing to bear in mind when deciding which year you want something to be taxed.

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

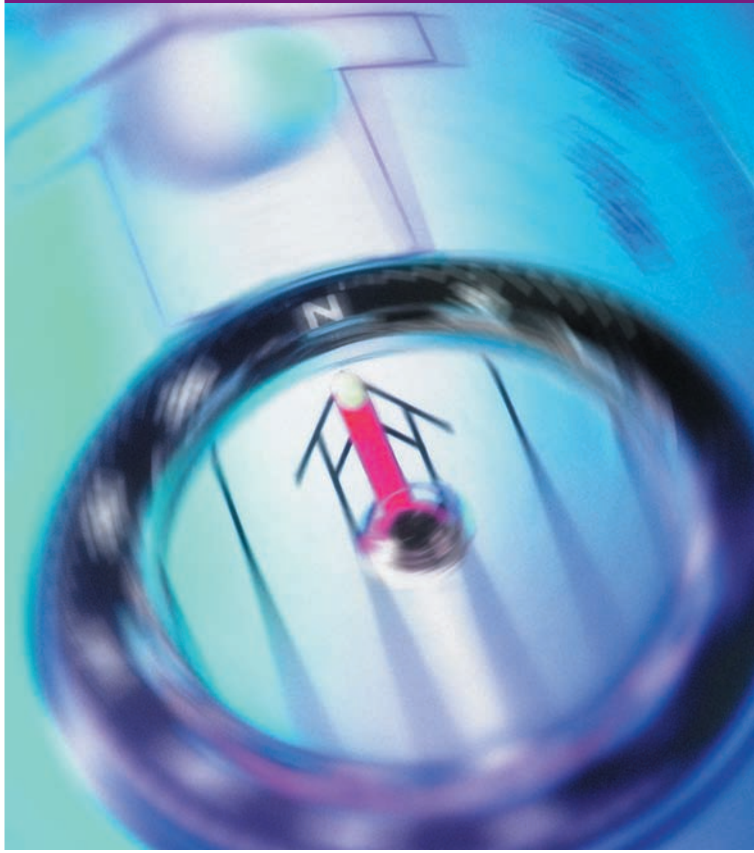
For further information on our services, please see our website www.essexabel.co.uk or contact us directly on 01509 267827

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

Email: accountants@essexabel.co.uk

2008–2009 GUIDE TO

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. They 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 £50,000 of expenditure on plant in an accounting period enjoys a 100% write-off, but an excess over that is only written down at 20% each year.

Buying something a few days before the accounting date, rather than a few days after, brings that big deduction forward a whole year. Spending £50,000 each year will get better deductions than spending £100,000 every other 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, the Revenue will expect you to have taken delivery.

Example

John has profits in the period of £90,000. A few days before the year end, 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 £38,000 – 100% of £50,000 and 20% of £10,000 is taken off.

New car, old car?

The rules on cars are less favourable – for buying a car, the maximum deduction is £3,000 a year, so you can't get a big reduction in profits for your new car. There is a strange rule when you sell your old car, though – as it's only been written down by £3,000 a year for tax, there's often a big tax loss when you sell it. You can time the sale to bring that loss into the most advantageous accounting period. The tax rules for cars are changing 2009, so it's important to think ahead whether your are buying or selling.

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.

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Many expenses will fall in the period in which you have incurred the obligation to pay them, even if you 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 the generous limit of £235,000 a year (rising over the next few years to £255,000). 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.

Employers can pay into personal pensions instead, but they are more closely linked to the individual's tax year (6 April to 5 April) than the accounting period of the business. An employer can contribute up to £3,600 gross a year to such a pension – if the individual does so personally, the Revenue contribute £720 to the policy and the person only has to pay £2,880. That's the case even if the individual has no earnings and pays no tax.