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# NEWSLETTER

## *Variety is the Spice of Life*

Welcome to the bumper spring edition of our newsletter containing our special year end tax planning supplement. It's a good idea to review your tax affairs at least once a year and the period leading up to the end of the tax year on 5 April is the best time to do this. 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.**

**AND.....for those of you.....**

**....who travel in Europe** - read about the new European health insurance card

**....who sell over the phone or internet** - we provide a summary of the changes to the 'distance selling' rules

**....serving disabled customers** - we give you some clarification on the tax impact of changes you may have made in your business to ensure equal access for disabled people

**....struggling to cope with the impact of work-related stress on your employees** - read our article for some practical advice on simple measures you can put in place to help with this ever growing problem

**....in need of some extra cash** - read 'The Missing Millions' to see whether any of it belongs to you!

**Please talk to us if you have any questions or need any further information or advice.**

## *Pre-Budget Report - More Than Meets the Eye*

As we go to print, the dust is still settling on last December's Pre-Budget Report. Chancellor Gordon Brown presented his report on Thursday 2 December. There no longer seems to be a 'traditional' day for Budget statements. First Tuesday, then Wednesday and now Thursday.

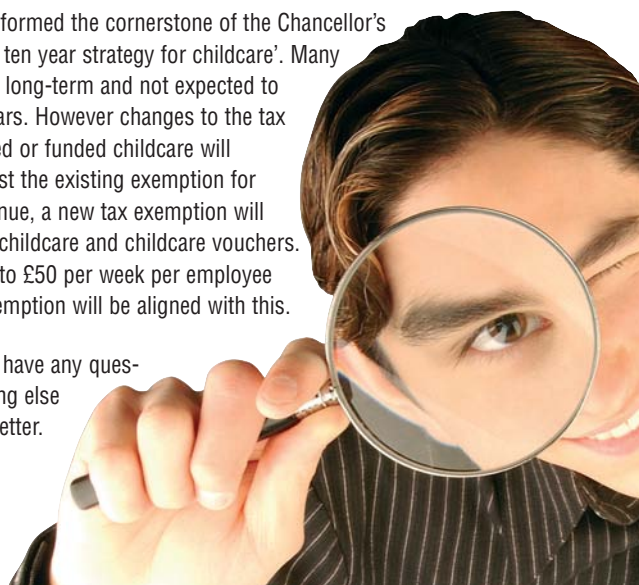
The speech itself was short and may have seemed light on content but the mass of accompanying documentation showed differently. The devil was definitely in the detail.

Corporation tax reform has been in the pipeline for some considerable time. The proposed changes are now a step closer and seem set to become a reality sooner rather than later. The 'schedular' system for classifying a company's income will be modernised with a single set of basic computational rules and loss relief rules for the whole of a company's 'operating business'. The reforms will also consider the tax treatment of capital assets and leasing transactions and the tax differences between trading and investment companies. The moves forward on the corporation tax front are in sharp contrast to those in the field of residence and domicile where the government declares its continuing commitment to reform but seems to be at a loss as to how to progress.

Measures related to childcare formed the cornerstone of the Chancellor's speech under the banner of 'a ten year strategy for childcare'. Many of the proposed measures are long-term and not expected to take effect for a number of years. However changes to the tax treatment of employer provided or funded childcare will change in April this year. Whilst the existing exemption for workplace nurseries will continue, a new tax exemption will apply to employer-contracted childcare and childcare vouchers. The exemption will be limited to £50 per week per employee and the national insurance exemption will be aligned with this.

Please do give us a call if you have any questions relating to this or anything else we have covered in this newsletter.

SPRING 2005



# New European Health Insurance Card

Those of you who travel in Europe will no doubt be familiar with form E111. Supplementary to your usual travel insurance, the form entitles travellers from the UK, who are eligible, to free or cheaper emergency medical treatment in the European Economic Area (EEA). The EEA covers member states of the European Union (EU) plus Iceland, Liechtenstein and Norway. Switzerland is also covered.

This old style form is due to be replaced by a new plastic European Health Insurance Card. The new card will not hold electronic or clinical data. In line with EU regulations, the card will be issued on an individual basis and not a family basis as before, so children will not be covered by their parent's card.

The new cards will be valid for up to five years and will continue to be free of charge. We can expect to see the new cards sometime in 2005.

Old style forms E111 ceased to be valid on 31 December 2004. Therefore if you are planning to travel in Europe during 2005, you should apply for a new E111 as those issued before 19 August 2004 will not be valid in 2005. Your new E111 will be valid until 31 December 2005.

The current application form includes a tick box, which, if completed, will ensure that you are automatically issued with the new card in 2005.



## Stress...a Growing Problem

Stress in the workplace is always in the news these days and yet it isn't a new problem. Most of us accept that pressure is an inevitable part of work and indeed has the upside of helping to keep us motivated. But pile on pressure and this can lead to stress which is expensive for employers.

Work-related stress can take many forms. It is not an illness in itself but the psychological impact of stress can contribute to problems with ill health including depression, heart disease and back pain.

The Health and Safety Executive estimates that 13.4 million working days were lost to stress, depression and anxiety in 2001. Each new case leads to an average of 29 days off work and the total cost amounts to several billion pounds each year.

Acas has produced a booklet which looks at 'Stress at Work' in some detail. There is an Acas helpline on 08457 47 47 47 and the website address is [www.acas.org.uk/publications](http://www.acas.org.uk/publications)

We set out below some questions and answers to help you understand a bit more about the problem and its possible solutions.

### Q: Why tackle stress?

**A:** The benefits of dealing with stress are clear and include:  
improving the quality of working life and therefore employees' performance  
making it easier for changes to be introduced in the workplace  
improving employment relations and making it easier to resolve problems  
improving attendance levels and reducing sickness levels.

### Q: What are the main causes of stress?

**A:** Too many **demands** on employees.  
Too little **control** for employees over their working lives.  
Too little **support** from management.  
A failure to build good working **relationships** based on trust.  
A failure to clearly specify a job description or **role**.  
A failure to manage **change** leading to uncertainty and insecurity.

The need to tackle stress is also recognised in law. Employers are obliged to undertake a risk assessment for health hazards at work, including stress, and to take action to control that risk.

However for many, stress is still something of an unknown quantity and a mystery. The Health and Safety Executive has helped by developing standards so that employers can manage stress and identify areas for improvement. See [www.hse.gov.uk/stress/index.htm](http://www.hse.gov.uk/stress/index.htm)

**Please talk to us if you have any questions or issues arising from this article.**

### Q: What can be done to counter stress?

**A:** **Demands** - consider job design, training needs and flexible working.  
**Control** - consider actively involving employees in the decision making process and ensure regular reviews to identify their strengths and weaknesses.  
**Support** - give employees the opportunity to talk things through and listen to what is said as well as keeping them informed.  
**Relationships** - ensure there are proper policies in place for dealing with grievances, poor performance and unsatisfactory attendance records.  
**Role** - make sure there are accurate job descriptions in place and ensure individuals' targets are closely related to those of the organisation as a whole.  
**Change** - always plan ahead so that change is not a shock and consult with employees so that they have a real input to the process.

## Going the Distance

The rules on distance selling are being amended with the aim, according to the DTI, of 'helping small businesses save time and money'.

Currently businesses selling services over the phone, by mail order or the internet have to provide customers with key written details, such as the right to cancel, before the contract is agreed. A customer must receive this information before entering into an agreement such as say a mobile phone contract. In some cases it can be difficult to get the information to the customer in time - say for example in the case of a last minute train ticket.

Businesses should therefore welcome the small but important change to the rules which takes effect in April 2005. They will then be allowed to deliver the key written details at any time from when an order is placed until the service begins. They will no longer have to provide the information before an agreement can be entered into. In practice it seems likely that many businesses affected will provide customers with the written information at the point when the service starts - in the case of car hire for example this would be when the car is delivered or collected.

If the written information is not provided until after the service provision has started, the customer has the right to cancel an agreement for up to seven days after the information is received.

Further information can be found on the Government News Network website at [www.gnn.gov.uk](http://www.gnn.gov.uk)



## Free Advice!

The government is clearly concerned that employers should be doing more to boost awareness of pensions and to encourage a greater take up amongst their workforce. In an attempt to help, the Inland Revenue has announced a tax exemption so that employers can provide pensions advice to their employees without the cost of the advice giving rise to a tax charge on the employees. In practice much pensions information and advice given by employers to employees is unlikely to give rise to a tax charge anyway. But it could where, say, consultancy or seminar fees are paid to a third party.

The exemption only applies if the benefit is generally available to all employees and up to a limit of £150 for each employee per year. If the cost to the employer is higher than £150 per head then, you guessed it, the whole lot is taxable. And of course any other advice on investment, tax or legal matters is not covered by the exemption. Still better than nothing!

Please give us a call if you have any questions relating to this article or any other aspect of the tax rules on pensions either under the current regime or in relation to the changes planned for 2006.

## Serving Disabled Customers

Several important changes were made to the Disability Discrimination Act (DDA) in October of last year. One of these changes which has been widely reported is the requirement for businesses providing goods, services or facilities direct to the public to make any 'reasonable adjustments' necessary to ensure equal access for disabled people.

Whilst the DDA does not define 'reasonable adjustments' the Disability Unit of the Department of Work and Pensions has a website that considers this. It gives examples of reasonable adjustments. It also makes clear that if someone thinks you have discriminated against them they could take civil proceedings against you. The court could grant damages for any financial loss, including injury to feelings. The disabled person could also seek an injunction preventing you from repeating the discriminatory act in the future.

In addition the Inland Revenue has produced some guidance on the tax treatment of expenditure incurred by businesses to help make their premises more accessible to disabled people. **Talk to us soon if you need further help in this area - in particular if you have already or are shortly to incur expenditure of this nature. In the meantime we summarise below the areas where the Inland Revenue has given guidance.**

**Revenue expenditure** - day to day costs will qualify for tax relief in the normal way - examples given include the cost of large print documents and staff training.

**Capital expenditure** - may qualify for capital allowances as plant and machinery under existing rules, for example lifts and toilets. Smaller businesses may be eligible, currently, for a tax write-off of 50% of the cost in the year of purchase. Expenditure on altering the fabric of the building on the other hand is unlikely to qualify for relief unless the building is an industrial or agricultural building or qualifying hotel. Examples would include installing access ramps and widening doorways to facilitate wheelchair access.

The Inland Revenue guidance also covers **specific types of expenditure:**

- Ramps
- Toilets
- Signs
- Hand rails
- Lighting
- Doors
- Lifts
- Stairs
- Alterations to walls and floors
- Car parks
- Paths.

# Registration Requirements for High Value Dealers

It has been around a year since new regulations aimed at preventing money laundering became effective. As businesses dealing in goods (not services) that accept large cash payments are affected by certain measures introduced under the regulations we provide a useful reminder of the main requirements.

Known as High Value Dealers (HVD), those businesses that deal in goods and accept what are known as High Value Payments (HVPs) are required to register with Customs and Excise. Such businesses are required to adopt policies and procedures designed to prevent the business being used by money launderers. A HVP is defined as a cash payment or series of payments equivalent to €15,000 (around £10,000) or more, in any currency for a single transaction.

The registration requirement became effective from 1 April 2004 and while the HVD rules are most likely to affect those businesses that deal in high value or luxury goods such as cars, jewellery, works of art, etc, potentially any business dealing in goods when faced with a large cash payment could be affected.

It is worth noting that even businesses only occasionally accepting HVPs are caught by the rules. Therefore when faced with a HVP, an unregistered business essentially has the following options:

- refuse the transaction
- request payment by another method or
- register the business immediately with Customs and Excise, before
- accepting the cash payment.

## The Registration Process

Customs and Excise form MLR100 must be completed. Customs will then send a certificate showing an MLR number within 45 days. Every legal entity through which a HVD is run must be registered and an annual fee of £60 is currently payable for each premises through which HVD activity is carried on.

A HVD, whenever accepting a HVP, must operate **CATCH**. This acronym summarises the main elements of the money laundering regulations as they apply to HVDs:

- C**ontrol your business by having anti money laundering systems in place
- A**ppoint a Nominated Officer
- T**rain your staff
- C**onfirm the identity of your customers
- H**old all records for at least five years.

Compliance with the HVD regime is important. The law imposes very severe penalties on anyone involved in money laundering. Businesses that fail to comply with a registration requirement may be liable to a civil penalty of up to £5,000. Failure to comply with the Money Laundering Regulations could lead to either prosecution or a civil penalty.

If you would like to find out more about the HVD regime we would be pleased to discuss the requirements with you.

#### Disclaimer - for information of users

This newsletter is published for the information of clients. It provides only an overview of the regulations in force at the date of publication, and no action should be taken without consulting the detailed legislation or seeking professional advice. Therefore no responsibility for loss occasioned by any person acting or refraining from action as a result of the material contained in this newsletter can be accepted by the authors or the firm.

## The Missing Millions!

Have you ever considered whether you may be the owner of some of the estimated £15 to £20 billion of unclaimed, lost or abandoned money held in the UK?

Research suggests that one in 12 adults in the UK could discover £5,000 or more that they have either lost touch with or never knew existed.

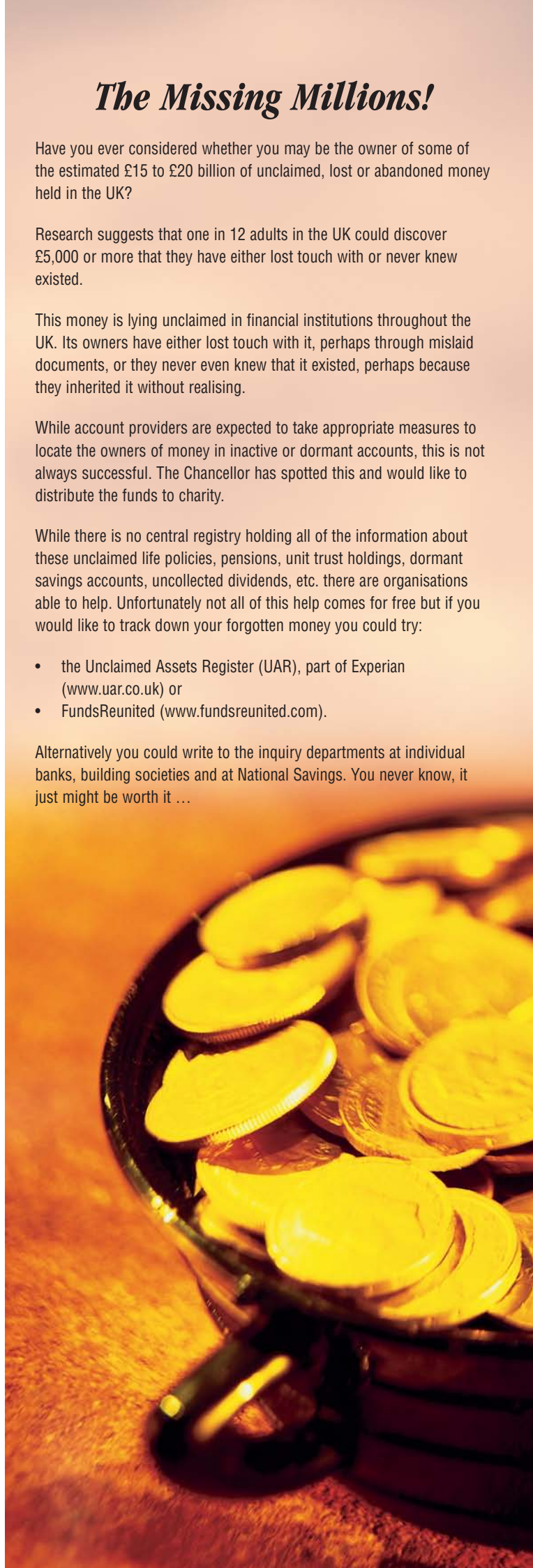
This money is lying unclaimed in financial institutions throughout the UK. Its owners have either lost touch with it, perhaps through mislaid documents, or they never even knew that it existed, perhaps because they inherited it without realising.

While account providers are expected to take appropriate measures to locate the owners of money in inactive or dormant accounts, this is not always successful. The Chancellor has spotted this and would like to distribute the funds to charity.

While there is no central registry holding all of the information about these unclaimed life policies, pensions, unit trust holdings, dormant savings accounts, uncollected dividends, etc. there are organisations able to help. Unfortunately not all of this help comes for free but if you would like to track down your forgotten money you could try:

- the Unclaimed Assets Register (UAR), part of Experian ([www.uar.co.uk](http://www.uar.co.uk)) or
- FundsReunited ([www.fundsreunited.com](http://www.fundsreunited.com)).

Alternatively you could write to the inquiry departments at individual banks, building societies and at National Savings. You never know, it just might be worth it ...



# Year End Tax Planning

## Tax Saving Tips for the Family

### MARRIED COUPLES

Marriage gives limited scope for income tax planning, but spouses are taxed separately. Therefore, by careful planning, maximum use can be 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 even up incomes. A transfer of just £1,000 of savings income from a higher rate taxpaying spouse to one with income below the personal allowance (currently £4,745) will save £400 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, 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.

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

### 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 £18,900.

**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 the parents and the child is under 18. In this case the income remains taxable on the parents 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 earnings from the family business for teenage children to use personal allowances, starting rate and basic rate tax bands.

Remember that children also have their own capital gains tax (CGT) annual exemption (£8,200). It may be better for parents to invest for capital growth rather than income.

For children born since September 2002, a Child Trust Fund is being introduced with effect from April 2005. Information booklets and vouchers are currently being sent to parents. Please talk to us for further details.

### NON-TAXPAYERS

Children or any other person whose personal allowances exceed their income are not liable to tax. Where income has suffered 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.

Remember that the 10% starting rate applies to all types of income so that if the only source of taxable income is bank or building society interest the first £2,020 (for 2004/05) 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 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 be paid within nine months of the company's year end to ensure tax relief for the company in that period.

Alternatively consider the payment of a pension contribution by the company on behalf of an employee since this is tax and NI free.



# 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 the short term. An investment strategy based purely on saving tax is not advisable.*

## ISAs

ISAs provide an income tax and capital gains tax-free form of investment. The maximum investment limits are set for tax years. To take advantage of the limits available for 2004/05 the investment(s) must be made by 5 April 2005. Stocks and shares, cash and life insurance can be held in an ISA and the table below sets out the maximum annual investment limits.

### ISA Investment Limits

Maximum investment 2004/05

Maxi ISA	£
Overall limit	7,000
Stocks and shares	up to 7,000
Cash	up to 3,000
Life insurance	up to 1,000

Mini ISA	£
Overall limit	7,000
Stocks and shares	up to 3,000
Cash	up to 3,000
Life insurance	up to 1,000

In practice most ISA providers are selling ISAs solely investing in stocks and shares. Banks and building societies provide mini cash ISAs. If a cash mini-account is opened then no maxi-account can be opened in the same tax year so that only a mini stocks and shares ISA can be opened which is limited to a £3,000 investment.

16 and 17 year olds can open mini cash ISAs. Other ISAs are restricted to those aged at least 18. Care must be taken to ensure the funds to open such an ISA do not come from the child's parents. In that case the income would be taxable on the parents if, with any similar income, it exceeds £100 a year.

## TESSAs

The capital (but not interest) from maturing TESSAs could be paid into the cash component of an existing maxi ISA, or into an existing mini cash ISA or into a TESSA-only ISA within six months of maturity without affecting the annual ISA investment limits.

## PEPs

No new funds can be invested in a PEP but it is possible to consolidate single company PEPs with a general PEP or create a general PEP out of single company PEPs. This has the advantage of allowing more flexibility for sales and purchases of investments.

## OTHER INVESTMENTS

**National Savings 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 £200,000 per tax year. CGT exemption is given on 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 40% is available on subscriptions for VCT shares up to £200,000 per tax year so long as the shares are held for at least three years. The ability to defer capital gains by investing in VCT shares has been abolished.

**Enterprise Zone Trusts** allow investors to invest in qualifying property and obtain immediate tax relief of up to 40% on their investment. There is no upper limit on the investment.

**Film partnerships** allow an investor to become a partner in a business that purchases a qualifying film. The loss created can be set against income and/or capital gains, to give higher rate tax relief. The current scheme will come to an end in July 2005.

**Second hand endowment policies (SHEPs)** can be very 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. Your mortgage does not qualify for any tax relief.



## *Giving to Charity*

Charitable donations made under the Gift Aid Scheme can result in significant benefits for both the donor and the charity. The charity is able to claim back tax at 22% 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 so that the net cost of the gift is only £60.

### Tip

Tax relief against 2004/05 income is possible for charitable donations made between 6 April 2005 and 31 January 2006 providing the payment is made before filing the 2004/05 tax return.

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

It is also 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.



## *Capital Gains Tax*

The availability of taper relief at 75% on business assets after just two years of ownership means that the effective rate of CGT for a higher rate taxpayer is often only 10%.

### Annual exemption

The first £8,200 of gains made in 2004/05 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 both to fully use this. 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 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 gains. The timing of such disposals may be critical because losses are used against gains before applying taper relief.

### Tip

On the other hand if a disposal is deferred until a date after 5 April 2005 then not only will next year's annual exemption be available but the tax payable will be due a whole year later. Additional taper relief may also be available.

### 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 via the EIS.

A capital loss can be claimed on an asset that is virtually worthless. Where the asset is of 'negligible value' by 5 April 2005 the capital loss can be used in 2004/05.

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. Please talk to us soon if there are any issues in relation to CGT planning you wish to discuss.

## *National Insurance Matters*

If a spouse is employed by the family business it is probably now worth paying earnings in 2004/05 of between £79 (the lower earnings limit) and £91 (the earnings threshold) per week. There will be no employees' contributions due on the earnings but entitlement to a state retirement pension and certain other benefits is preserved. No employer contributions are payable if earnings do not exceed £91 per week in 2004/05. Note that the earnings threshold will be £94 per week in 2005/06.

### 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 2004/05 is £4,215. If contributions have been paid for 2004/05 and it subsequently turns out that earnings are below £4,215 a claim for repayment of contributions can be made. The deadline for this claim is 31 December 2005.

### Tip

On the other hand it may be advisable to pay the contributions in any event in order to maintain a contributions record. The alternative voluntary Class 3 contributions are £5.10 a week higher.

# *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 the Inland Revenue.**

**19 April 2005** - Interest will run on any 2004/05 PAYE, NIC, student loan and CIS deductions not paid over by this date.

**19 May 2005** - Employers' year end returns (P35/P14/P38) due for submission.

**31 May 2005** - Employees must be provided with their P60 (certificate of pay and tax deducted).

**6 July 2005** - Submission of P11Ds and P9Ds which show details of expenses paid and benefits provided to employees and directors. There is a penalty for submission of late or incorrect returns. Employees must also be given a copy of their P9D/P11D by this date.

**19 July 2005** - Class 1A NIC for 2004/05 on most benefits in kind provided to employees must be paid. Interest runs from this date on late payments.

**19 October 2005** - PAYE settlement agreement liabilities for 2004/05 are due, together with Class 1B NIC. Interest runs from this date on late payments.

## **Electronic filing and payment**

Large employers (those with 250 employees or more) have been required to pay their PAYE to the Inland Revenue electronically since May 2004. They will also have to file their 2004/05 end of year returns electronically. Medium employers (those with between 50 and 249 employees) will be required to file their 2005/06 end of year returns electronically.

**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!**

## *Pension Contributions*

There are many opportunities for pension planning but the rules can be complicated. Furthermore the government plans to change the rules on the taxation of pensions very significantly from April 2006. We will of course keep you informed of the detail of the changes but in the meantime if you want to discuss pension planning further please talk to us.

Tax relief is 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. Indeed for some individuals, in particular where income consists largely of dividend income, the marginal rate of tax maybe in excess of 40%. It can be as high as 44.5%. For such an individual the true cost of a £100 pension contribution is £55.50. With the inability of the state 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 pay 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).

The maximum level of contributions is determined by the taxpayer's age at the start of the tax year. Earnings in excess of £102,000 (for 2004/05) are ignored.

Under these rules an individual can lock in NRE of a good year by giving the pension provider evidence of those earnings. This year is then used as the basis of contributions for that year and the next five. These rules may allow a company to pay remuneration in one year and dividends in the following five. In turn, this enables a director/shareholder to make personal pension contributions every year and the company and individual to save national insurance. The rules are enhanced where an individual ceases to have relevant earnings. Contributions for the next five years after the year of cessation can be based on NRE for any of the six years up to and including the year of cessation.

Directors of family companies should, as an alternative, consider the advantages of setting up a company pension scheme. If a spouse is employed by the company consider including them in the scheme. Even with modest salary levels, significant benefits can accrue. Also consider Funded Unapproved Retirement Benefit Schemes (FURBS), particularly if you wish to provide top-up pension benefits in excess of the maximum limits allowed for approved schemes.

## *Company Cars and Fuel*

Company car benefits are calculated by reference to the CO<sub>2</sub> emissions. The level of business mileage is not relevant. The greener (environmentally!) the car the lower the charge. Consider a diesel car. If it is 'Euro IV' compliant, the 3% surcharge normally applied is waived although from 6 April 2006, the waiver will cease for cars registered on or after 1 January 2006. Or if it is a realistic option consider a company van rather than a car. It could be a lot cheaper.

Businesses purchasing 'green' cars with CO<sub>2</sub> emissions not exceeding 120 gm/km can generally write off the full cost of the car in the year of purchase. If the car is for the proprietor of an unincorporated business the allowances will be restricted to take account of the proportion of private use.

For many people with a company car the benefit charge will increase on 6 April 2005 but not so as to take the charge above the maximum 35%.

### **Tip**

**Check your position to confirm that the company car is still a worthwhile benefit. It may be better to receive a tax-free mileage allowance that could be up to 40p per mile for business travel in your own vehicle.**

Where private fuel is provided, the charge is also based on CO<sub>2</sub> emissions. You should review the arrangements to ensure no unnecessary tax charge arises. If you have opted out of free fuel during the year, the charge will be proportionally reduced. However where you opted in during the year a full charge is applied.