

Tax Year End 2009/10

Financial Health Check

Financial Planning is a continuous process but this is a good time of year to review your affairs to ensure that you are making use of appropriate investment related tax breaks. To assist with this review we hope that the following check list will be helpful. Whilst not comprehensive it does cover the main aspects of potential planning as follows:

- **Pension Contributions**

Except for high earners, individuals can now contribute up to 100% of their relevant earnings (with a high upper limit) to their pension fund, which may be in a number of "pots". If you are a member of an occupational pension scheme then you can **also** have a personal pension within certain limits. With the fall in pension fund values, now may be a good time to **"rebuild" your pension fund using tax relief available of up to 40%**. For example, if higher rate tax applies for a personal contribution of £10,000 HMRC will make a payment into your pension fund of £2,500 **and** in addition provide further tax relief in your own hands of £2,500. Contributions for the current tax year must be made by 5 April 2010.

- **Individual Saving Accounts (ISAs)**

Many millions of pounds are lost each year by tax payers who don't use some or all of their **ISA "tax free" savings allowance**. This tax year the allowance is £7,200 for a 'stocks and shares' ISA (but increased this tax year £10,200 for those who are age 50 plus). The maximum that can be invested in a 'cash' ISA is £3,600; if this is the case the balance remaining of £3,600 can be invested in a 'stocks and shares' ISA, to use the full allowance. If a smaller amount of, say, £2,000 is invested in a 'cash' ISA then the allowance balance of £5,200 can be invested in a 'stocks and shares' ISA. One can now **also** transfer money from a 'cash' ISA to a 'stocks and shares' ISA. It may be worth considering this to improve the interest/dividends available as the interest rates on cash deposits are now very low. Income (which can be paid out if required) and capital gains generated within an ISA are free from UK income tax and capital gains tax.

- **Use of Tax Allowances**

Capital Gains v Income – as the top rate of income tax is 40% (50% from 6th April 2010 on income above £150,000) as compared with a flat rate of capital gains tax of 18% **it may be appropriate to consider investments which generate capital gains rather than income**. Apart from the lower tax rate applicable on capital gains the first (£10,100 this tax year) of gain is tax free.

Married couples/partners should also consider the income tax advantage of changing the ownership of investment such that each spouse uses his/her personal income tax allowance

(£6,475 until age 65) and also the basic rate (20%) tax band. **Changing the ownership of investment income can produce significant tax savings** but there are a number of other aspects to be considered when reviewing the situation.

- **Venture Capital Trust (VCTs)**

The main tax advantages of this type of investment are that there is **income tax relief available at 30% on investments up to £200,000 and the dividend income is tax free.** However, one needs to bear in mind that 70% of the trust assets has to be invested in qualifying investments including shares in unlisted and AIM listed companies so these investments are higher risk in nature. For high earners they could be considered as a partial alternative to pensions, with the recent restrictions imposed on pension contributions.

- **Enterprise Investments Schemes (EIS)**

The **main tax breaks here are income tax relief available at 20%, inheritance tax mitigation and deferment of capital gains** made up to one year after and up to three years before the date of the EIS investment. Also 100% of the EIS investment can be carried back to the previous tax year. Importantly EIS investment should benefit from business property relief (BPR) after two years, which means that **shares will not form part of an estate for inheritance tax purposes.** Higher risk normally applies to these schemes.

- **Inheritance Tax (Estate) Planning**

Making gifts should reduce the value of an individuals estate for inheritance tax (IHT). Individuals can gift up to £3,000 per annum which is exempt for IHT purposes. Spouses each have their own exemption and for those who have not used their 2008/09 exemption this can still be used by 5 April 2010 before it is lost. There are other useful exempt gifts that can be made including normal expenditure out of income. The use of a trust to retain some control over the gifted asset may be appropriate. However, we are able to provide comprehensive investment and tax planning advice; please let us know if a review in this fairly complex area of planning would be helpful.

At this time of financial uncertainty within the global economy it is perhaps even more important that all appropriate investment and tax planning opportunities are explored so that wealth can be maximised tax efficiently.

If you would like us to contact you regarding any of these matters please contact your usual Scott-Moncrieff adviser.

Alternatively please don't hesitate to contact us directly and we look forward to hearing from you.

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