

## Introduction

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The end of the tax year is an important time to review the possibilities for saving tax.

It may be necessary to act well before 5 April 2008 to take advantage of some tax-saving ideas.

The law can be changed with immediate effect from Budget Day, which will be on 12 March this year, so it may be prudent to act before then.

In other instances it might be better to defer action until after 5 April 2008.

Tax plays an important part in financial planning as a whole, so this should be reviewed at the same time.

Some tax changes for 2008/09 have already been announced, although in some cases the detailed provisions are still to be finalised.

Although the Budget also usually includes some changes that take effect immediately, meaning that action would need to be taken before the Budget, it is impossible to predict these with any certainty. Occasionally announcements are made at other times with immediate effect, usually to plug a loophole in the law that has resulted in tax avoidance.

Promoters of certain types of tax avoidance schemes have to disclose the arrangements to HM Revenue and Customs (HMRC), which registers them and issues a reference number. Taxpayers who use a registered scheme must show its reference number in their tax return.

The fact that a scheme is registered does not mean that it is in any way approved or that it achieves the intended effect. Indeed, a purpose of the disclosure rule is to bring arrangements to the attention of HMRC earlier so that, where HMRC considers they involve unacceptable tax avoidance, they can be blocked by legislation.

Basic tax planning advice of the type covered in this Essential Guide should not normally constitute arrangements subject to the disclosure rules.

The general strategy should be to make use of available allowances and tax reliefs and to reduce any higher rate tax as far as possible.

How any individual achieves this depends on personal circumstances and the type of income and assets one has.

## Couples and partners

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Some married couples and registered civil partners find that one partner pays higher rate tax while the other does not have enough income to use up the personal allowance (£5,225 each in 2007/08) and the starting and basic rate tax bands (a further £34,600 each in 2007/08).

There are several ways of transferring income between partners.

Unless otherwise stated, these strategies are also suitable for individuals living together who are not married or in a registered civil partnership.

- A higher-income partner in business could pay the other partner a salary. PAYE records must be kept unless the salary is below the national insurance contributions (NIC) lower earnings limit of £377 a month in 2007/08.

However, a monthly salary between £377 and £435 will allow an individual to qualify for state benefits, such as the retirement pension, without any NIC payment being needed.

In particular, the individual will accrue benefits under the state second pension, S2P, as if the salary were £13,000. The remuneration must be reasonable in relation to the work done and it must actually be paid to the spouse.

- As well as salary, up to £3,600 could be paid as an employer's contribution to the partner's personal pension plan. The partner will not be taxed on this benefit nor will NIC be payable on it.

Like salary, the pension payment will be deductible from business profits provided the salary and pension payment combined do not exceed a reasonable rate of remuneration for the work carried out. Excessive pension contributions for a partner or other relative may not be deductible on the grounds that they are not paid wholly and exclusively for the purposes of the business.

- Profits could be shared by operating the business as a partnership. Both individuals need to be genuinely involved as business partners, and a written partnership agreement is advisable.

Operating as a business partnership will not reduce tax if the business consists of supplying personal services in a form that is caught by the IR35 anti-avoidance legislation.

- If the business is set up as a limited company, and it is not a personal service company caught by the IR35 rules, a partner could become a shareholder and receive dividends.
  - An individual who is not liable to higher rate tax has no further tax to pay on dividends.
  - Dividends carry a 10% tax credit that cannot be recovered, so a shareholder needs non-dividend income as well in order to benefit fully from the personal allowance.
  - The House of Lords gave the green light to this strategy in a ruling in July 2007 in which it rejected attempts by HMRC to tax the working shareholder on dividends paid to both. In December 2007 HMRC proposed new rules to crack down on this type of income shifting. However, they will not take effect until 6 April 2008.

The announcement leaves a window of opportunity to save tax by paying dividends before 6 April 2008.

- Investment income could be transferred by switching ownership of the asset that produces it. For example, shares could be transferred before a dividend is paid. For this to be effective, assets must be transferred absolutely and unconditionally.
  - In most cases, transferring ownership of assets would generally have its main effect on the income of future years.
  - Transferring assets where the couple are not married or in a civil partnership can result in a capital gains tax liability and a potential future inheritance tax liability.
  - Transfers of assets between partners who are married or are civil partners are free of capital gains tax and could save capital gains tax when the assets are sold, if one partner pays tax at a lower rate than the other or has an unused annual exemption or capital losses.
- Savings could be held in joint names. Normally each individual is taxable on half the income. This provides scope for transferring income-producing assets without losing complete control.

## Taxpayers aged 65 or over

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People aged 65 or more on 5 April 2008 may qualify for a higher personal allowance. Married couples and civil

partnerships may qualify for a couple's allowance if at least one partner was born before 6 April 1935.

The extra allowances are reduced in 2007/08 by £1 for every £2 of taxable income above £20,900. Reducing income below this level could save tax at an effective rate of up to 33%.

- An individual under 75 could make a personal pension contribution of up to £3,600 (before deducting tax relief).
  - It is not necessary to have earnings, but an individual who does have earnings could contribute up to 100% of those earnings if the resultant contribution is greater than £3,600.
  - The pension could even be drawn immediately, including a 25% tax-free lump sum. The combination of 22% tax relief on the contribution and the tax-free lump sum results in a high effective return on such an investment.
- Couples with a joint income of up to £41,800 could swap investments to ensure that neither has an income of more than £20,900.
- Another possibility is to switch into investments that generate capital growth or income that is exempt from tax.

## Children

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### Using personal allowances

Children have their own personal allowances and so can have tax-free income of up to £5,225 in 2007/08.

However, income of more than £100 derived from a gift from a parent is taxed as the parent's income if the child is under 18 and unmarried.

This includes the income of a child's cash ISA, where the capital originated from a parent, but not income in a child trust fund.

- Teenagers could work in a parent's business for a salary as long as the payment is reasonable for the work done.
- Where a child is a beneficiary of a discretionary an income distribution can be made, and the child can reclaim the 40% tax paid on the distribution.

### Child tax credit

Parents with children living with them, aged under 16, or between 16 and 19 and in full-time education, can claim the family element of child tax credit worth up to

£545 in 2007/08. The tax credit is increased to £1,090 for a child under one year old.

- Child tax credit must be claimed from HMRC and claims cannot be backdated by more than three months. Existing claimants will be invited to continue claiming for 2008/09. For those who did not claim for 2007/08, the end of a tax year is a good opportunity to consider whether they should claim for the coming year, taking into account their estimated income for 2007/08 and expected income for 2008/09.
- The tax credit is normally reduced by 6.67p for every £1 of income over £50,000. For a couple (which includes an unmarried couple or unregistered same-sex couple), the tax credit is based on joint income.
- Either or both partners could make a personal pension payment to reduce joint income to £50,000 or less.
- Families with lower income, high childcare costs, several children or disabilities may be entitled to additional elements of child tax credit and working tax credit, and may be entitled to the full family element of child tax credit at a level of income higher than £50,000.
- Tax credits other than the family element of child tax credit are withdrawn at 37p for each £1 of income above the first income threshold (normally £5,220 for 2007/08), so any reduction in taxable income achieves a high percentage benefit in terms of saving tax on the income plus increased entitlement to tax credit. For example, each £1 reduction in income taxed at 40% saves 77p (40p tax saved plus an extra 37p in tax credits).

## Directors and employees

Directors, especially directors of their own companies, and some employees may well have a degree of control over their income and scope for tax planning.

- They might be able to choose to take a bonus or dividends either before or after the end of the tax year, depending on their tax rate in each year.
- An individual who always pays higher rate tax could delay a large dividend until after 5 April 2008.

This could delay the payment of higher rate tax on it for a year, although the benefit of deferral is less noticeable if dividends are paid every year.

- Anyone who holds share options should consider the tax position (as well as the investment issues) when deciding whether to exercise them now or in a future tax year.
- Exercising enterprise management incentive (EMI) options and selling the shares before 6 April 2008 could save capital gains tax if the options have been held for at least two years and qualify for the maximum taper relief. Taper relief will end on 5 April 2008 and EMI share options will generally not qualify for its more limited replacement, entrepreneurs' relief.
- A director who is also a major shareholder in the company may be able to reduce NIC by taking dividends instead of remuneration.

However, dividends are generally more expensive than remuneration if the company's profits are between £300,000 and £1,500,000, taking into account the company's and individual's tax and NIC liabilities together. This will change in 2008/09.

It should also be remembered that dividends are not pensionable earnings.

- Special rules for personal service companies mean that it is no longer possible for those businesses to save tax by paying dividends or employing a partner.

If a business is affected by the personal service company rules (IR35), paying sufficient salary before 6 April 2008 will avoid the complications that can arise from being taxed on a 'deemed payment'.

Company pension contributions remain fully allowable.

- An individual who is planning to work abroad for more than a year should try to leave before 6 April 2008.

An individual has to be away from the UK for a whole tax year for the income earned while abroad to be free of UK tax.

- The benefit of a company car is normally taxable only for the period the car is available and so a change to this benefit during the tax year has immediate effect. The same is true for the additional tax charge on fuel provided for private mileage in a company car.

Although the end of the tax year is therefore no longer particularly relevant, the question of whether a company car and fuel for private use are worthwhile benefits should form part of any general financial review.

## Self-employed people

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Tax planning for self-employed income is generally carried out at the end of the accounting period. However, the end of the tax year can be relevant.

- The choice of accounting date in relation to the tax year end will make a difference to the timing of tax payments on business profits.

A change of accounting date can also enable overlap relief from earlier years to be used before inflation erodes its value.

- It may be beneficial to delay buying plant and machinery until the introduction of the proposed annual 100% investment allowance for the first £50,000 of such expenditure. The details and scope are subject to consultation, but according to the 2007 Budget report, from April 2008 companies, sole traders and partnerships of any size will be able to claim the allowance for expenditure on most plant and machinery, though not cars.
- The date on which a self-employed person retires or ceases self-employment can make a difference to the tax liability in the final tax year of the business, depending on several factors.
- Tax changes in the past few years have increased the attraction of running a business through a limited company that pays the proprietor mainly by dividends, instead of operating as a self-employed individual or partnership. Although there is no longer a zero starting rate band for corporation tax, it is still possible to make worthwhile tax savings by incorporating.
- The timing of any change to company status relative to the tax year end may affect tax liabilities, although the decision will depend on many other factors as well.
- The proposed future changes in personal and corporate tax rates should be considered when determining the timing and effect of an incorporation.
  - For 2008/09 the starting rate of income tax (10% for 2007/08) will be abolished for income other than dividends, and the basic rate of income tax will be reduced to 20%.
  - The main rate of corporation tax will fall by 2% to 28% from 1 April 2008. The small companies' rate increased by 1% to 20% in 2007/08, and will increase again to 21% in 2008/09 and to 22% in 2009/10.

- These increases are aimed at reducing the tax benefits of incorporation for small businesses.
- A business that performs service contracts over a period should invoice as early and as often as possible. The business accounts may have to include work in progress at 'selling price' rather than cost. Invoicing before the year-end can help avoid paying tax on money not yet received.

## Investment income

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Varying levels of earnings could mean an individual is a basic rate taxpayer this year but likely to be subject to higher rate tax next year. In these circumstances, it could be worth advancing investment income.

- This could be achieved by closing an investment account before 6 April 2008 as the final interest is credited on the closure date.
- Other possibilities are cashing single premium investment bonds or selling units/shares in offshore roll-up funds.

The 10% tax rate on dividends can sometimes produce tax relief at an effective rate of 44.5%.

Higher rate taxpayers who make a personal pension contribution will save tax at 44.5% to the extent that dividend income is moved down into the basic rate tax band.

The saving consists of the 22.5% difference between the higher (32.5%) and basic (10%) tax rates on dividend income and the 22% basic rate tax relief deducted from the pension payment.

Employees can achieve a similar benefit by paying additional contributions into their occupational pension scheme.

The saving is 42% for capital gains and savings income, such as deposit interest.

A similar result can be achieved by claiming a relief that reduces taxable earnings.

## Pension planning

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Pension planning is an important part of any annual tax planning for those aged under 75.

A new simplified pensions regime started on 6 April 2006, which has removed most of the differences between different types of pensions and thereby simplified year end planning.

- Contributions to registered pension schemes qualify for tax relief at the individual's highest rate. In addition, the investment grows in a largely tax-free environment.
- There is a lifetime allowance on the amount of any individual's tax-exempt pension savings. This limit is £1.6 million in 2007/08, rising in stages to £1.8 million in 2010/11. Any excess over this lifetime limit is subject to a 'lifetime allowance charge' of 25% tax before being applied to provide taxable benefits. If the excess is taken as a lump sum, it is taxed at 55%.
- Benefits accrued before 6 April 2006 that exceed this limit can be protected, but specialist advice should be taken urgently.
- There is an annual allowance of £225,000 (2007/08) on increases in any individual's tax-exempt pension fund. This limit will increase to £255,000 in 2010/11. Total contributions in excess of the annual limit will be taxed at 40%.
- Individuals can normally contribute the greater of £3,600 or 100% of their earnings and benefit from tax relief.
- If contributions are paid to a scheme that operates tax relief at source, basic rate tax relief is given by deducting 22% from the contribution. Therefore to make a payment of £3,600, an individual actually has to pay £2,808. All personal pensions started since 1 July 1988 operate tax relief at source.
- From 6 April 2008, only 20% tax will be deducted from pension contributions. Therefore to make a payment of £3,600 an individual will now have to pay £2,880. Anyone who is not a higher rate taxpayer should consider paying as much as possible into a pension this year to get the extra 2% tax relief.
- Because of the high limits on pension contributions, it is no longer necessary for most individuals to maximise payments each year.
- Making pension payments up to the amount of income subject to higher rate tax will maximise the benefit. Where pension payments are paid net of tax at 22%, it is the grossed up payment that should not exceed the income subject to higher rate tax where possible.
- It is possible to set up a personal pension for a partner with little or no earnings or even children so they can benefit from tax relief at 22%, even if they do not actually pay any tax.

- It is no longer possible to base contributions on earnings of an earlier year or treat contributions as paid in the previous year for tax relief purposes.

### **Contracting out of S2P**

An employee who is not a member of a contracted-out pension scheme can contract out of the state second pension (S2P) using a personal pension.

The employee and employer continue to pay full NICs but part of the payment is transferred to the employee's personal pension plan.

Anyone who wants to contract out of S2P for the current year should do so before 6 April 2008.

This is also the date by which contracted-out individuals can contract back into S2P for the current tax year.

The decision whether and at what age to contract out or back in is not straightforward. Several insurance companies and financial advisers consider that at present the balance is usually in favour of being contracted into S2P. However, as a result of recent changes to the contracting-out rebates (the amounts that are transferred to a personal pension), the difference may not be as significant now as it was previously.

## **Capital gains tax**

Capital gains tax (CGT) planning is especially important this year because of the abolition of taper relief and indexation for disposals after 5 April 2008, and the introduction of a uniform CGT rate of 18% instead of gains being taxed at 10%, 20% or 40% depending on the individual's total income and gains in the tax year.

### **Annual exemption**

Every individual has an annual CGT exemption, which in 2007/08 makes the first £9,200 of gains free of tax.

- Anyone who has not used the exemption for 2007/08 could sell investments to realise tax-free profits of up to £9,200.
- If realised taxable gains are already more than £9,200, it might be possible to dispose of investments to create a tax loss to set against the excess gains.
- Selling investments will not create a gain or loss if the same taxpayer buys them back within 30 days, but they could be repurchased by a spouse, a family trust or an individual savings account.

Buying or selling in this way normally involves costs and could also reduce CGT taper relief on a subsequent sale.

- Assets capable of being split, such as a holding of shares or unit trusts, could be sold in two transactions, one before and one after the end of the tax year, in order to make use of two annual exemptions.
- If individuals have net losses, it might be better to delay any gains until 2008/09, subject to other considerations. Where losses are brought forward, they need only set off enough losses to bring net gains down to the annual exemption.

In contrast, losses of the same year have to be set against gains in full, which could waste up to £9,200 of losses if they cannot make enough gains to produce net gains after losses of £9,200.

## Married couples and civil partners

Transfers of assets between partners can save CGT when the assets are finally sold.

- The Pre-Budget Report in September 2007 announced the abolition of indexation allowance, which allowed for the effect of inflation between 1982, when it was introduced, and 1998, when it was frozen.
  - Indexation in effect more than doubles the cost of assets acquired in April 1982 or earlier and uplifts the cost of any asset bought up to March 1998.
  - It is possible to preserve the indexation allowance by transferring an asset to a spouse or civil partner before 6 April 2008.
  - The transfer does not result in any tax, but the spouse or partner acquires the asset at a 'cost' that includes the indexation allowance. This acquired indexation will not be lost.
- If one partner has used up the annual exemption and wants to sell more assets, the assets could first be transferred to the other partner so that his or her annual exemption is used against the gain.
- As capital gains are taxed at an individual's marginal income tax rates in 2007/08, transferring assets to a partner before sale could save tax if the partner pays tax at a lower rate.
- Where assets are held jointly, the gain is split equally and both partners can use their annual exemptions as well as their 10% and 20% tax rate bands.

- If one partner has capital losses in 2007/08 or unused losses from earlier years, assets could be transferred to that partner, if the sale of those assets is likely to produce a gain that exceeds the annual exemption.

For all transfers there should be as much time as possible between the transfer of the assets and the sale.

HMRC could ignore the effects of a transfer made immediately before a disposal.

If documentary proof of the ownership of the assets is not available, a deed of gift may be necessary to prove the transfer has taken place.

## Taper relief

Taper relief is being abolished for disposals from 6 April 2008 onwards. This relief reduces the amount of a taxable gain by an amount that depends on the type of asset and how many full years it has been owned since 6 April 1998.

- On business assets, taper relief currently reduces a gain by 50% after one year of ownership and a further 25% after two years.

Broadly, business assets are those used in a business, shareholdings in unlisted companies and most employee shareholdings.
- Taper relief on business assets means that gains are in effect taxed at 10%. The changes to CGT from 6 April 2008 mean that sales of business assets will be taxed more heavily from 6 April 2008 unless they qualify for the new entrepreneurs' relief.
  - Entrepreneurs' relief is much more limited in scope than business taper relief. A sole trader or partner has to sell the whole or part of a trading business, not just assets of the business, unless the business has ended.
  - Shares qualify if sold by an employee or director of the company who owned at least 5% of the ordinary shares and voting rights.
  - There is a lifetime limit of £1 million of gains.
  - There are other conditions and the proposals could change before 6 April 2008.
- Non-business assets qualify for taper relief at 5% a year from the third full year of ownership, except that assets acquired on or before 17 March 1998 qualify for an extra 5%. The maximum rate of taper relief on non-business assets is 40%.
- Taper relief on non-business assets in effect means that gains are taxed at rates ranging from 24% to 40%. Delaying a sale will mean the gain is taxed at 18%.

- The abolition of indexation after 5 April 2008 complicates the decision on timing. Indexation particularly benefits assets with a high base cost acquired a long time ago. It could mean it is better to bring forward a sale to before 6 April 2008 even for a non-business asset.
- Remember that it is the contract date that determines in which tax year a sale falls for CGT, not the completion date, if different.

## Payment of CGT

CGT is payable on 31 January following the end of the tax year in which the disposal took place.

Delaying a major sale until after 5 April 2008 will result in an extra 12 months before the tax has to be paid.

## Negligible value claims

An asset might have become virtually worthless. If so, one can claim the loss against capital gains.

The time limit for claiming this relief is 5 April 2008 for assets that became of negligible value in the tax year 2005/06.

It is also possible to claim relief for the loss of goodwill bought as part of an unincorporated business that has subsequently failed.

## Tax-efficient investments

Some assets can have both income tax and CGT advantages.

### Individual savings accounts (ISAs)

Individuals aged 18 or over can invest up to £7,000 in an ISA each tax year in a mixture of cash, shares and life insurance.

This year's allowance is lost if it is not used by 5 April 2008. Income and gains in an ISA are tax-free but the 10% tax credit on UK equity dividends cannot be recovered.

- A maxi ISA must offer a shares element and can include up to £3,000 cash.
- Mini ISAs include just one of the two types of investment.

A taxpayer who does not have a maxi ISA can invest in one mini ISA of each type in any tax year.

Up to £4,000 can be invested in a mini stocks and shares ISA and, £3,000 in a cash ISA.

- One cannot invest in both a maxi ISA and a mini ISA in the same tax year.

- 16 and 17 year olds can contribute to a cash ISA.

However, if a parent provides funds for a child's ISA, the income from that ISA will be taxed on the parent if it exceeds £100 a year.

There is no restriction on grandparents or other relatives providing funds for a child's ISA.

Withdrawals from an ISA do not affect the investment limit for the tax year. Once the maximum has been invested, no more investments can be made that year even if the funds have been withdrawn.

From 2008/09, the maximum annual amount that may be invested in a cash ISA will rise to £3,600. The maximum for a stocks and shares ISA will be £7,200, subject to an overall subscription limit of £7,200.

### Child trust fund

Tax-exempt child trust funds (CTF) have been available since 6 April 2005 for any eligible child born after 31 August 2002. The Government provides an initial voucher for £250 and a further £1,200 can be added each year until the child's 18th birthday.

- The money belongs to the child, who cannot normally withdraw it before the age of 18.
- The tax treatment of the funds is similar to ISAs.
- Once the child is 18, the money will belong to the child to spend or invest how he or she wants.
- The government will provide a further voucher for £250 on the child's seventh birthday. It has also consulted about a payment at 'secondary school age', likely to be another £250 at age 11, but has not announced whether such a payment will go ahead.
- The vouchers are doubled for certain low income families.
- The limit of £1,200 applies to each year separately and it is not possible to catch up on missed payments. Each year for this purpose runs from the child's birthday until the day before the child's next birthday. It is not the tax year but it may be opportune to review CTFs at the tax year end in conjunction with financial matters generally.

### Enterprise investment scheme (EIS)

The EIS gives tax relief for new shares in certain trading companies that are not listed on the Stock Exchange.

- Income tax relief is given at 20% on sums of up to £400,000 invested in a tax year.
- Gains on this investment escape CGT after three years.
- It is possible to defer CGT on a gain of any size by reinvesting in shares that qualify under the EIS.

The gain (calculated before taper relief) must be reinvested in the period between one year before and three years after the disposal.

Tax is payable on the deferred gain when the EIS shares are disposed of.

- An individual can obtain CGT deferral, but not income tax relief, by reinvesting in a company in which he or she is a director, although there are some restrictions.

This can help people setting up a new business.

### Venture capital trusts (VCTs)

Individuals can get income tax relief of 30% on investments of up to £200,000 a year in shares in VCTs in the tax year 2007/08. VCTs resemble investment trusts and invest in a range of companies.

- There is no CGT on the sale of these shares and dividends are free of higher rate tax, but the 10% tax credit cannot be recovered.
- Shares issued after 5 April 2006 must be held for five years.
- CGT deferral is not available.

**Note:** EIS and VCT investments carry a high risk and EIS investments may be difficult to realise.

## Charitable giving

- Tax relief is available for any gifts to charity if the donor makes a gift aid declaration.

The donor deducts tax at 22% from the gift and the charity benefits by claiming this tax back.

Higher rate taxpayers can claim additional tax relief of 18%; so it is less costly to give to charity in a year in which an individual pays higher rate tax.

- A donor who was a higher rate taxpayer in 2006/07 but not in 2007/08 can elect for donations made in 2007/08 to be treated for tax purposes as if they had been made in 2006/07.

The election must be made in writing on or before the date the donor delivers the 2006/07 tax return and this must not be later than 31 January 2008.

- It is possible to obtain both income tax and capital gains tax relief on gifts of land (with or without buildings), listed shares and certain other investments to charity.

## Inheritance tax

Inheritance tax is payable if the sum of a person's assets at death and the gifts he or she made in the seven years before death exceeds £300,000, subject to various reliefs and exemptions.

- Gifts of less than £3,000 per tax year are exempt from inheritance tax.
- A person who made no gifts to use this exemption in 2006/07 can make inheritance tax-free gifts of up to £6,000 before 6 April 2008.
- Regular gifts out of excess income might also be exempt. Careful documentation is needed to prove that the gifts are made from income rather than capital.
- If past inheritance tax planning has resulted in liability to income tax on 'pre-owned assets', it might be possible to save money by paying something for the 'benefit' received. For example, a person who continues to live in property given away could pay rent. This is a complicated area and specialist advice should be obtained.
- Where a surviving spouse or civil partner dies after 8 October 2007, their estate benefits from any unused inheritance tax nil rate band of their previously deceased spouse or partner, regardless of when the first death occurred. The transferred proportion is uplifted to the same fraction of the nil rate band at the date of the second death.
- As a result, couples generally need no longer plan to use the nil rate band on first death and should review wills and tax planning arrangements devised before 9 October 2007.

## Time limits

There are a number of time limits for claiming reliefs and allowances, and for notifying HMRC of income.

Many of these limits are now set by reference to 31 January rather than 5 April.

Taxpayers should generally review their tax affairs for the past few years to make sure that any potential claims are not running out of time.

## Tax payments

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Individuals who pay tax under self-assessment usually have to make payments on account of income tax for 2007/08 based on their tax liability for 2006/07.

They should review their tax payments as soon as the amount of taxable income for 2006/07 is known or can reasonably be estimated, with a view to making a claim to reduce payments on account where the true 2007/08 tax liability will be less than the payments on account.

Such a claim would avoid having to overpay tax and claim it back at a later date.

## Conclusion

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This brief review of end of year tax planning can only cover the main areas in outline. In any tax planning exercise it is important to be clear about priorities.

Saving tax is important, but it needs to be kept in proportion.

There are many other factors to consider, such as:

- Ensuring that there is enough money to meet personal and business needs.
- It is not enough for an investment to be tax-efficient; it should be a good investment in itself.
- Some tax-saving actions involve risks, for example investing in unlisted securities or transferring assets to other people.
- Flexibility is almost always desirable, even if it involves additional costs or saves less tax. Circumstances may change.
- The costs and general inconvenience of implementing some tax-saving strategies may not always be worthwhile.

*This guide is for general information only and is not intended to be advice to any specific person. You are recommended to seek competent professional advice before taking or refraining from taking action on the basis of the contents of this publication. The guide represents our understanding of the law and HM Revenue & Customs practice as at February 2008, which are subject to change.*