

## Tax Factsheet - October 2005

*Welcome to the October edition of our monthly Tax Factsheet.*

*The issues covered in this Factsheet are aimed at providing outline guidance only, and further specific advice may be needed before decisions are taken.*

### **Avoiding Inheritance Tax – Top Ten Tips**

The Chancellor wants to collect ever more Inheritance Tax (IHT) – the Government has budgeted for £3.4 billion this year.

Many people are living under the cloud of potential death duties due to rising house prices and the minimal annual increases in the starting point for IHT. The current threshold is only £275,000, above that IHT at a punishing 40% is charged.

The Government has fixed the IHT starting point until 5 April 2008, by which time it will have risen to only £300,000. There is therefore certain opportunity for medium-term IHT planning.

Many IHT avoidance schemes are complex, and involve detailed Will and Trust planning. Tax savings though can be huge – and if faced with potential IHT liabilities, a detailed planning review is money well spent.

As a ‘taster’, here are 10 IHT ‘tips’ to help keep the taxman at bay – some require only basic planning, whilst some need careful consideration and specialist advice:

- **Write a Will**  
This makes your wishes concrete, and avoids the cumbersome rules of Intestacy. It is the 1<sup>st</sup> step to avoiding IHT, and a Will should always be in place.
- **Make a plan**  
Think about where you want your money to go and why. Work out if IHT is an issue by adding up the value of your savings, investments, property and personal possessions. Don’t forget PEPs and ISAs – they count for IHT purposes. Take off the value of any debts, and if the net total adds up to more than £275,000, you should be thinking about IHT planning.
- **Minimise your Estate**  
Ensure that as much as possible is outside your Estate. You cannot be taxed on money that was never yours. For example, write any new life insurance policies under Trust and consider transferring existing policies into Trust. Think about nominating employment death benefit policies to go to a chosen person rather than your Estate.
- **Marriage**  
Assets passed to a spouse, (which from December include same sex couples), are free of IHT. Legacies between unmarried couples are not tax free – a serious problem when a couple jointly own their home.

- Think about your home  
For most families, the home is the biggest asset – and the biggest IHT headache! The Government have recently blocked many schemes which allowed people to give away homes but still live in them. They have even gone as far as imposing a potential Income Tax charge for living rent-free in a house you once owned.  
However there are still some options – a simple example being severing a joint tenancy to at least open up main home planning opportunities.
- Investments  
Some investments are given favourable treatment for IHT purposes, including shares in unquoted companies, farms and farmland, and shares on the AIM stock market.
- Trusts  
Not only Will Trusts, but other forms of Discretionary Trust can help in Estate planning. It is possible to enjoy an income from money paid into Trust even though you are no longer the legal owner of the cash.
- Use your annual allowances  
Giving money away will reduce your Estate, but will not avoid IHT unless you survive most gifts by 7 years. However, the Revenue allow gifts of up to £3,000 each tax year, plus unlimited gifts of up to £250 per person per tax year, and wedding gifts of up to £5,000.  
Another useful concession is that gifts made from normal income can be exempt from IHT if not materially reducing your standard of living.
- Arrange insurance to cover an IHT bill  
If you were to estimate the IHT liability your Estate would face, and then arrange whole of life insurance under Trust to cover it, a lump sum on death would be outside the Estate.  
The premiums will be treated for tax purposes as a gift from regular income, and on death, the proceeds of the policy can settle the IHT bill.  
Essentially, you are building a fund to pay the IHT but retaining your wealth through your lifetime and possibly holding onto cash which may be needed for long term care.
- Spend it  
Don't forget whose money it is – if you are worried that your wealth is building up a tax bill, then enjoy spending your hard earned money!

*Inheritance Tax planning is a complex area of taxation. We can help with your planning needs and put in place strategies to ensure you protect your wealth as far as possible. Please contact Robert Bradley on (01509) 212890 for more information.*

### **Online P35 filing – a Revenue update**

HMRC are finally processing 2004/05 online year end Annual Returns, and have advised that letters telling employers with fewer than 50 employees they have qualified for the £250 tax free payment have started to go out.

Provided employers have had the on-screen acceptance message for the P35, they can get their tax-free payment straight away by deducting £250 from their next payment to the Revenue.

A nil payslip should still be sent in for any complete month (or quarter) covered by the tax-free payment.

Only after the Revenue have fully processed Returns, and sent written confirmation that the tax-free payment has been credited to the payment record, can the employer claim the £250 in cheque form.

The deduction option is therefore clearly the quickest and most efficient method of receiving your repayment.

*Contact Robert Bradley or Lindsey Roscoe if you have any payroll queries.*

**Yet more Revenue 'enabling' letters**

Hot on the heels of previous letters to small businesses and Construction Industry workers advising them to ensure that Tax Returns are correct and Self Employment status is genuine; it appears that yet another batch of similar letters are en route.

The latest letters have been trialled in the Nottingham area and are being sent to higher paid employees with expense claims, eg, for professional subscriptions.

The letters suggest the employee reviews his/her expenses claim, otherwise risk a tax enquiry. The Revenue insists they are not enquiry letters, but they are yet another heavy-handed attempt to encourage voluntary compliance. Although they should not be treated as an indicator that the employee has done anything wrong, we would recommend care with any answers given.

*Please contact Robert Bradley if you have received a letter and are unsure as to whether your expense claim is valid.*

**Tax Diary October/November 2005**

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| <b>19 October 2005</b> | PAYE and NIC deductions due for the month end 5 October. (If you pay electronically, the due date is 22 October).                                    |
| <b>31 October 2005</b> | Submit CT600 to Revenue for the year to 31 October 2004.<br>File accounts at Companies House for private companies with year ended 31 December 2004. |
| <b>31 October 2005</b> | Last day to ask Inland Revenue for a Self-Assessment Tax Return for 1999/2000.   |
| <b>1 November 2005</b> | Due date for Corporation Tax for year to 31 January 2006.  |
| <b>2 November 2005</b> | Submit forms P46 (car) for quarter ended 5 October 2005.   |

*For further assistance on any of the issues raised, please contact Robert Bradley, Tax Manager at Turner and Smith on 01509 212890 or email [robert\\_bradley@turnerandsmith.co.uk](mailto:robert_bradley@turnerandsmith.co.uk)*

***All due care has been taken in the preparation of this fact-sheet. The authors can accept no responsibility for loss occasioned to any person acting or refraining from action as a result of any material in this publication.***