

Your *TaxAbility* Checklist

Do you really want to give the Taxman £447,675?

We all have to pay our fair share of taxes. But we feel strongly that no one should pay more than their fair share - which is why we have created this *TaxAbility* checklist.

It reveals 57 powerful ideas to shave many pounds - perhaps even many thousands of pounds - off your tax bills and of course, since we are Chartered Accountants, every single one of them is 100% legal and fully approved by the Taxman.

What could it do for you? Just think, even if you can only shave 5% off your tax bills, if you earn £25,000 a year that tiny 5% saving adds up to an extra £22,384 in hard cash to spend and enjoy during your lifetime. And if you earn more than £25,000 - or you manage to trim more than 5% from your tax bills - the savings could be much, much larger. Perhaps as much as £50,000 or £100,000.

I am pleased to say that *TaxAbility* has been specifically designed to help you start to identify where and how to make these sort of savings. It has also been designed to take less than 20 minutes to complete.

Once you have filled it in we strongly recommend that you discuss all of your “no” answers with your Chartered Accountant. Of course, if you don’t have a Chartered Accountant, or you would simply like someone to give you a fresh perspective on your options, we would be delighted to help you free of charge in one of three ways:

You can either call our *TaxAbility* Hotline on 0151 649 3900 and ask for Pam Knight, email her on mail@the-priory.co.uk or return your completed checklist to us and we will contact you.

I hope that you find the *TaxAbility* checklist useful - and I am really looking forward to hearing from you.

TaxAbility

2007/08 Full Edition

Spend 20 minutes completing this tax-busting checklist
and start cutting all your tax bills down to size!

Have you spoken to
your accountant about
this recently?

Your Small Business

- | | | Yes | No | N/A |
|---|---|-----|----|-----|
| 1 | Are you sure that you are taking money out of your business in the most tax-efficient way?
<i>Tip: If your business is a limited company it often makes sense to get your money out by a combination of salary, benefits in kind and dividends. Even after the recent Budget changes, savings can be made by a regular review of remuneration planning.</i> | | | |
| 2 | Are you paying your spouse a tax efficient salary?
<i>Tip: The salary must be sensible and reflect the work done – and must actually be paid. HMRC forms may need to be completed and submitted especially if a state pension record is required.</i> | | | |
| 3 | Have you made the most of your opportunities to save tax by investing in a personal pension?
<i>Tip: Subject to certain limits, pension contributions made personally are tax allowable - which means that the effective cost may be as little as 60p to invest £1 in a pension. If you don't provide for your retirement, who else will?</i> | | | |
| 4 | Have you reviewed your pension arrangements recently?
<i>Tip: April 2006 saw the introduction of new pensions regulations which increase the amounts that can be invested in a pension fund, broaden the rules on what the pension scheme can invest in and relax the rules on retirement.</i> | | | |
| 5 | If you are a sole trader, have you considered taking your spouse into partnership?
<i>Tip: Care must be taken to ensure that your spouse's share of profits is not disproportionate to their share of involvement, and it must be run as a genuine partnership (e.g. both names on bank accounts, stationery, etc).</i> | | | |
| 6 | Have you considered whether there are any benefits from converting partnership/business loans and/or surpluses into personal loans - or vice versa?
<i>Tip: In general, finance used for business purposes will receive tax relief. However, care is always needed to ensure that tax relief can actually be claimed whenever setting up financial arrangements.</i> | | | |
| 7 | Have you considered the legitimate ways to increase or decrease your business profits so that your allowances and tax rates are used as efficiently as possible?
<i>Tip: Although there are severe penalties for artificial transactions, there are still some practical and legitimate steps you can take – including taking advantage of government promoted tax shelters.</i> | | | |
| 8 | If you are about to invest in a new car, computer or any other business equipment, have you considered the best time to buy them and the best way to pay for them?
<i>Tip: You will get tax relief a lot quicker if you make the investment shortly before rather</i> | | | |

than shortly after your business year-end.

Tip: The 50% rate of first year capital allowances on new plant and machinery has been extended for a further 12 months from April 2007 for small businesses. So the year from April 2007 could be a good time to invest in equipment.

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| 9 | <p>If your business has made losses, have you made sure that those losses are being used to reduce your current tax bills by as much as possible?</p> <p><i>Tip: If you are self employed it may be possible to set off the losses against your other income, or even against income from earlier years (if you've just started trading). It may also be possible to use the losses to reduce your National Insurance bills.</i></p> <p><i>Tip: New regulations have been introduced to limit the loss relief available to non-active partners in respect of trading losses incurred on or after 2 March 2007.</i></p> | Yes | No | N/A |
| 10 | <p>If you run a very profitable limited company, have you done everything possible to make sure that your profits are taxed at 20% or 30%, instead of 32.5%?</p> <p><i>Tip: Companies with profits of up to £300,000 are taxed at 20%, from April 2007 while for profits of more than £1.5m the tax rate is 30%, reducing to 28% from April 2008. But for profits of between £300,001 and £1.5m, the tax rate effectively jumps up to a staggering 32.5% for the financial year to 31 March 2008.</i></p> <p><i>Tip: You can't usually get round this by setting up lots of companies in an attempt to keep them all paying the lowest rates of corporation tax, since there are "associated companies" rules designed to make that impossible. Professional advice should always be taken.</i></p> <p><i>Tip: A review of expenses and how profits are taken out of the company can significantly reduce this tax bill.</i></p> | Yes | No | N/A |
| 11 | <p>If you run a company or a partnership and sell your personal services, knowledge or skills, have you taken appropriate steps to ensure that the IR35 rules won't cost your business a fortune in additional tax?</p> <p><i>Tip: From 6 April 2007, PAYE will be applied to all payments made to individuals by Managed Service Companies. NIC will be applied after the Finance Bill becomes law.</i></p> | Yes | No | N/A |
| 12 | <p>If you run a one-man band business (not a limited company), have you made sure that there is absolutely no possibility of the Taxman charging you much more money by treating you as being employed by one or more of your best customers?</p> <p><i>Tip: You may firmly believe you are self-employed. But the Taxman may think differently. And it could cost your customer and possibly you a lot of money. So we strongly recommend you take some good advice.</i></p> | Yes | No | N/A |
| 13 | <p>Have you considered recently (i.e. in the last 12 months) whether your business would be better off trading as a sole trader, partnership, limited company or limited liability partnership?</p> <p><i>Tip: The many changes announced in recent Budgets have moved the goalposts. For many businesses the scales may have tipped in favour of becoming a company, while for a few it may now be better to go back to being a sole trader or partnership. And since April 2001, limited liability partnerships may be better than either for some businesses.</i></p> | Yes | No | N/A |
| 14 | <p>If you trade through a limited company and pay your spouse or minor children dividends on shares they own, are you sure that the Taxman won't be able to tax those dividends as if they were your income?</p> <p><i>Tip: In the last couple of years the Taxman has been targeting family-owned companies where one spouse does most of the work, but seeks to divert some of the business income to a non-working spouse. There are often steps that can be taken to minimise the risk of such an attack, but the law is complex and proper advice is essential. Extra care is required if redirecting income to children under 18, since annual income in excess of £100 may well still be assessed on parents.</i></p> | Yes | No | N/A |
| 15 | <p>Have you planned ahead and taken action to minimise your tax bills when you eventually come to sell the business?</p> <p><i>Tip: Do you really want the Taxman to take up to 40% of everything your business is worth? The amounts involved could be huge. But with proper planning at an early stage you should</i></p> | Yes | No | N/A |

be able to keep much more of your money in your pocket... and not in the Taxman's.

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| 16 | <p>If your company invests in Research and Development ('R&D'), have you planned how to make the most of the up to 150% effective tax relief?
<i>Tip: Companies spending more than £10,000 a year on R&D may get tax relief on up to 150% of their R&D spend – but it can be complicated. So, to make the most of one of the most generous tax breaks in the UK system, you will need professional help. From 2008, it is proposed to increase the rate of tax relief to 130% of qualifying expenditure for large companies and 175% for small companies.</i></p> | Yes | No | N/A |
| 17 | <p>Have you considered making greater use of business gifts as a marketing tool?
<i>Tip: The cost of business gifts is tax deductible for the business if the gift (a) contains a conspicuous advert for your business, and (b) is NOT food, drink, tobacco or tokens or vouchers exchangeable for goods, and (c) does not amount to more than £50 per person a year.</i></p> | Yes | No | N/A |
| 18 | <p>If you are not already registered for VAT, do you have a system for making sure that you are still entitled to stay non VAT registered?
<i>Tip: If your sales in the previous 12 months are more than £64,000 then you MUST register for VAT immediately. So our advice is to set up a system for monitoring your 12 monthly cumulative sales every single month.</i></p> | Yes | No | N/A |
| 19 | <p>If your sales are less than £1.35m a year, are you making VAT potentially much easier and cheaper for your business by making the most of the cash accounting scheme or the annual accounting scheme?
<i>Tip: Many businesses find that annual VAT accounting saves them a lot of time and cash accounting dramatically improves their cash flow. So, both are well worth exploring.</i></p> | Yes | No | N/A |
| 20 | <p>If your sales (excluding VAT) are less than £150,000, have you considered switching to the flat rate VAT accounting scheme?
<i>Tip: Under the flat rate VAT scheme smaller businesses do not need to calculate the VAT liability from invoices received and issued. Instead they are allowed to pay VAT as a flat rate percentage of their sales. Tip: Not only could this scheme be simpler to administer, but it could also result in you paying less VAT. But it could cost you more – so proper advice is essential.</i></p> | Yes | No | N/A |
| 21 | <p>Do you always time the payment of dividends and bonuses from your company so that they fall in the "right" tax year for you?
<i>Tip: The timing of dividends and bonuses can have a big effect on how much tax you pay on them – and when it must be paid.</i></p> | Yes | No | N/A |

Your Employees (which includes YOU if your business is a limited company!)

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| 22 | <p>Do you have a company pension scheme? Are you making the most of pensions as a highly tax efficient way of rewarding and retaining key staff?
<i>Tip: April 2006 saw the introduction of new pensions regulations which increase the amounts that can be invested in a pension fund and broaden the rules on what the pension scheme can invest in. If you have 5 or more employees, it is likely that you have to provide a stakeholder pension scheme by law, or face a fine of up to £50,000, although you do not need to pay into the scheme.</i></p> | Yes | No | N/A |
| 23 | <p>Have you explored how to use pensions to cut the tax bill on wages and salaries?
<i>Tip: Under what are known as "salary sacrifice" schemes, it is possible to save up to 23.8% of wage/salary that is normally paid as National Insurance contributions. These savings can, of course, be shared between you and your staff so that everybody is better off.</i></p> | Yes | No | N/A |
| 24 | <p>Have you considered using one of the more "exotic" types of pension schemes to give you more control and flexibility and allow you and your staff to build up even bigger nest-eggs?
<i>Tip: Some of your options might include an Executive Pension Plan (EPP), a Small Self</i></p> | Yes | No | N/A |

Administered Scheme (SSAS), a Self Invested Personal Pension (SIPP) or an Unapproved Scheme. These schemes allow you to invest in a wider range of assets, which may include the premises occupied by your business.

Tip: Recent Budgets have tightened up the control of some of these schemes. If you have such a scheme already, have you considered what these changes mean for you?

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| 25 | Do you fully understand how to calculate the tax value of benefits in kind?
<i>Tip: As an employer it is your responsibility to calculate these tax values and include them on your employees' P11Ds. Many of the calculations are not intuitive, and if you get them wrong you could find yourself facing a fine of up to £3,000 per incorrect P11D!</i> | Yes | No | N/A |
| 26 | Have you told the Taxman about any changes to your company cars or who uses them?
<i>Tip: Changes to company cars can be reported on form P46 (car) and can save employees from paying the wrong amount of tax in the year and receiving a large tax bill later.</i> | Yes | No | N/A |
| 27 | If you provide company cars, have you checked in the last year whether you and your employees could be better off by changing your company car and petrol policy?
<i>Tip: The last few years have seen dramatic changes to the way company cars are taxed. Inevitably, the tax on most types of cars is now higher – especially for cars with high CO² emissions. So this could be an area well worth looking at again.</i> | Yes | No | N/A |
| 28 | If your employees use their own cars for company business, do you know how the mileage rules affect them and the business?
<i>Tip: Employers are able to pay employees up to 40p per business mile tax free, dropping to 25p per business mile after 10,000 business miles for using their cars on business journeys. Where employees receive less than these limits for business journeys in their own cars they can claim the difference as a deduction against their wages and reduce their tax bill.</i> | Yes | No | N/A |
| 29 | Have you considered providing your employees with new low emission cars?
<i>Tip: The tax paid by employees on low emission cars is now less than on high emission cars, and you can also claim 100% tax relief when you buy certain low emission cars. Note: This 100% relief is much more generous than the normal capital allowances on standard and high emission cars. It is surprising what cars are now included. A list can be found at www.comcar.co.uk.</i> | Yes | No | N/A |
| 30 | Have you planned for the new rules for employees taking home company vans?
<i>Tip: From 6 April 2007, unrestricted private use will generate a benefit in kind chargeable to tax of £3,000 per annum, with an additional £500 chargeable if fuel is also provided. Carefully documented procedures restricting private use could avoid this tax. Remember that the definition of 'van' may include pick-up trucks.</i> | Yes | No | N/A |
| 31 | Are you certain that you make the most of tax-free benefits in kind for your staff?
Some of the possibilities include: <ul style="list-style-type: none">• Providing mobile phones (no more than one per employee)• Giving them luncheon vouchers• Subsidising certain forms of transport to and from work – including bus fares• Providing workplace nurseries and crèches• Sporting and recreational facilities• Health checks• Car parking• Childcare vouchers• Paying relocation expenses• Up to £150 per person per year for staff parties• Making cash awards for contributions to a staff suggestion scheme• Allowing staff to use pool cars for business purposes• Paying staff up to an extra 5p a mile if they use their own car to take fellow employees on the same business trip• Providing company bicycles• And even... paying employees up to 20p a mile when they use their personal bicycles on business journeys! (or up to 24p a mile if they use their personal motorbike)... and | Yes | No | N/A |

providing free meals and refreshments to encourage employees to take part in official cycle to work days.

- 32 If you use contract workers and freelancers, have you made absolutely sure that the Taxman has no grounds for treating them as your employees?
Tip: This area can be a real minefield. Many businesses have unexpectedly found themselves with very expensive tax and NI bills for people that they thought were contractors and/or freelancers - but the Taxman regarded as employees. Yes No N/A
- 33 If any of your employees have been with you for more than 20 years, do you know how to reward them with a really special long-service present that is completely tax free for both you and them?
Tip: Tax-free gifts can now be worth up to £50 for each year of service (up to a maximum of 20 years). Yes No N/A
- 34 If your employees work from home, are you using the rules so that you can reimburse them tax free?
Tip: The 2003 Budget made it possible for you to pay £2pw tax-free without the employee providing any evidence that they have spent money, and larger amounts if they provide evidence of spending. Yes No N/A
- 35 Have you looked into whether it is possible to cut your costs and improve your cash flow by paying your PAYE and NI quarterly instead of monthly?
Tip: This is possible if your average monthly PAYE and NIC payments are less than £1,500. Yes No N/A
- 36 Have you looked at the possibility of motivating and rewarding your staff by giving them share options?
Tip: Some commentators regard the government's Enterprise Management Initiative scheme as a "must" for small businesses who want to motivate and reward their team. Not only is the scheme very flexible, but the tax and National Insurance savings are very attractive. Yes No N/A
- 37 If you have relatively low waged employees and/or employees with children, have you advised them to claim Working Tax Credits and Child Tax Credits?
Tip: You may be eligible to claim these credits too. Yes No N/A
- 38 Are you sure that you are staying on the right side of the minimum wage law?
Tip: The minimum wage is currently £5.35 an hour for people aged 22 and over. For those aged 18-21 the minimum wage is £4.45 an hour. And for 16 and 17 year olds it is £3.30. Tip: These rates will be increasing in October 2007 - to £5.52 in the case of those 22 and over, to £4.60 for 18-21 year olds, and to £3.40 for 16-17 year olds. Yes No N/A
- 39 Have you advised your employees to check their 2007/08 PAYE coding to make sure that the details are correct and that they are receiving the correct allowances? And have you done this for your own notice of coding? Yes No N/A
- 40 Have you asked the Inland Revenue for P11D dispensations to reduce your paperwork?
Tip: By agreeing a dispensation with the Revenue in advance of making the payment, you do not have to report it on a P11D. Yes No N/A

Your Family

- 41 Have you made a will? Have you updated it recently? And is it IHT efficient?
Tip: There are many compelling reasons for writing a will. For example, without one it could be up to the courts to decide who will be the guardians of your children and you may also have to pay thousands of pounds in unnecessary tax and legal costs. Why make things even worse for your loved ones? Make a will now!
Tip: If you are having a will drawn up it may be worth considering having an Enduring Power of Attorney drafted at the same time, to save costs. This enables you to nominate a trusted individual to deal with your affairs in the unfortunate event that you cannot deal with them yourself. Yes No N/A

NB: From October 2007 Enduring Powers of Attorney will be replaced by a Lasting Power of Attorney which will be more expensive to execute, so act sooner rather than later.

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| 42 | What happens to your family and business if you are ill or die? Do you have life assurance, permanent health insurance and critical illness cover? Have you reviewed your policies recently? Are they still the best policies for you? | Yes | No | N/A |
| 43 | If you give money to charity, have you made sure that the Taxman makes your donation even bigger by using, for example, Gift Aid and payroll giving?
<i>Tip: It is quite easy to get the Taxman to contribute a significant amount (to both the charity and possibly to you) every time you make a donation. It is also possible to make a gift in one tax year and carry it back to the previous year, subject to certain conditions.</i> | Yes | No | N/A |
| 44 | If you are planning on moving home, have you explored the possibility of taking a business loan instead of a mortgage?
<i>Tip: Business loans can get up to 40% tax relief, whereas mortgages no longer get any tax relief. What this means is that, for a £100,000 loan with 6% interest, the 40% tax relief could save you £2,400 a year - i.e. saving you £60,000 over 25 years! What could you buy with that sort of money?! There are many issues involved in doing this – so professional advice is essential.</i> | Yes | No | N/A |
| 45 | Have you considered changing your mortgage?
<i>Tip: Most banks and building societies offer big interest rate subsidies to people switching mortgage. They are also making the process of switching very, very easy and cheap. What price are you paying for inertia? Professional advice should be taken, as many deals may not be as good as they look.</i> | Yes | No | N/A |
| 46 | As there is no tax relief on mortgages, have you considered reducing your mortgage, or using a flexible or offset mortgage?
<i>Tip: If the net interest rate you earn on your savings is less than the interest rate you are paying on your mortgage, then you will save money by using your savings to pay off some or your entire mortgage.</i> | Yes | No | N/A |
| 47 | Have you made full use of the fact that each of your children can earn up to £5,225 a year as income and £9,200 a year in capital gains from 6 April 2007 - completely tax free?
<i>Tip: Grandparents can be the key here, since it is not as simple as parents putting money in their children's names. So you will need professional advice.</i> | Yes | No | N/A |
| 48 | If your estate is large have you considered: <ul style="list-style-type: none">• Inheritance tax planning• Taking out an insurance policy that will pay your inheritance tax bills when you die?• Using lifetime gifts to avoid paying inheritance tax altogether? <i>Tip: One of the saddest aspects of our job is having to tell families that up to 40% of everything their loved ones worked so hard to build up and earn must be handed over to the Taxman. And it's made even sadder by the fact that it is all so unnecessary. The truth is that, by acting early enough, most people can prevent the Taxman getting as much. There are many issues involved in getting all this right – so professional advice is essential.</i> | Yes | No | N/A |
| 49 | If you are intending to pay for private education for your children, have you taken steps to either put enough money aside to fund it, and/or explored the possible tax breaks to make the money go further?
<i>Tip: There are no tax breaks specifically designed to help parents finance their children's education. But if you are fortunate to have other family members (usually grandparents) who want to contribute towards the costs, then there are some very tax efficient ways of making this possible. Care is needed, especially with the changes to Trusts in the 2006 Budget, and professional advice should be taken.</i> | Yes | No | N/A |
| 50 | Have you used the legitimate ways to reduce your tax bills by transferring income from a spouse paying tax at higher rates to a spouse paying tax at lower rates?
<i>Tip: At very least you should aim to make sure that neither spouse wastes their £5,225 tax</i> | Yes | No | N/A |

free allowance – but early professional advice is essential. In particular, care needs to be taken not to divert income deriving from a spouse’s company if that spouse substantially performs the work.

Your Investments

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| 51 | Have you reviewed your investments to ensure that they are appropriate and performing well? Are they giving you the right balance of income and capital growth?
<i>Tip: Financial advice should be taken to ensure the right investments are made for your circumstances and the risks you wish to take.</i> | Yes | No | N/A |
| 52 | Have you considered investments that give you a tax free return? For example: National Savings Certificates, Friendly Societies and ISAs.
<i>Tip: You can invest up to £7,000 a year in a maxi ISA - but you must do it before 5 April each year. From 6 April 2008 the limit will increase to £7,200 per annum.</i> | Yes | No | N/A |
| 53 | If your spouse pays tax at a lower rate than you, have you considered passing some of your investments to them in order to reduce your combined tax bills? | Yes | No | N/A |
| 54 | If some of your investments have done very well and grown in value, have you considered whether it is sensible to sell some of them to save yourself even higher tax bills in the future?
<i>Tip: Everybody is allowed to make £9,200 in tax free capital gains a year, but many people waste this tax free allowance and end up paying higher tax bills later. Don't join them!</i>
<i>Tip: "Bed and breakfasting" investments is no longer possible. But you may still be able to save tax by selling shares and buying them back more than 30 days later, or having your spouse buy them back.</i> | Yes | No | N/A |
| 55 | Have you made sure that the non tax-payers in your family receive their interest gross - i.e. without their bank or building society deducting tax?
<i>Tip: Banks and building societies won't do this automatically. You need to ask them for form R85, and will need to complete one for each account.</i> | Yes | No | N/A |
| 56 | Have you considered the three main ways of getting tax relief on the full cost of your investments and not just on the interest you earn on those investments?
<i>Tip: The main examples are pensions, venture capital trusts and investments under the enterprise investment scheme. Some of these can be very risky. Never invest more than you can afford to lose and always take professional advice before investing.</i> | Yes | No | N/A |
| 57 | If you are considering investing in property (other than your home), have you considered taking out a loan to finance the purchase?
<i>Tip: Even if you don't actually need to borrow now, it may still make sense to borrow and use your spare capital for other purposes. The reason for this is that you may get up to 40% tax relief on the interest you pay on the loan – provided it was for a qualifying purpose - which makes it one of the cheapest ways to borrow money.</i> | Yes | No | N/A |

We strongly recommend that you contact your accountant today to discuss any questions where you have answered "no".

Alternatively, return your completed checklist to us and we will contact you.

Return to Pam Knight: The Priory Partnership
FREEPOST
1 Abbots Quay
Monks Ferry
Birkenhead
Wirral
CH41 3BR

Or email Pam at: mail@the-priory.co.uk

This checklist is designed to alert you to some of the major issues you should be considering in the light of the 2007 Finance Bill. It is not a replacement for professional advice tailored to your precise needs and circumstances.

No action should be taken without first taking professional advice.

No responsibility for any loss to any person from acting as a result of this material can be accepted by us.