

End of year tax planning

By Susan Winter, Tax Consultant at Armstrong Watson

Last week I discussed year end tax planning and to continue with that theme I now focus on personal finances. A review of your finances should be undertaken regularly and the end of the tax year is an ideal time to do so.

Individual Savings Accounts (ISAs) provide for tax-free growth and income and are an ideal vehicle for saving small regular amounts. You have until 5 April 2009 to use your 2008/9 investment limits if you have not already done so. ISAs provide significant tax savings throughout your lifetime however on death they do not hold the same tax incentives and could fall to be taxed at 40%. Therefore older investors with large accumulated ISA holdings may wish to consider moving such funds to obtain protection from Inheritance Tax.

A year end review should evaluate your current outgoings and assess whether you are saving enough now to provide for your spending needs when you retire. To give your savings time to grow it is important to invest adequately for retirement as early as possible. If you are relying on the State Pension for your retirement income, you may be disappointed as it provides little more than the bare minimum! Pension contributions based on your earnings in the 2008/9 tax year must be paid by 5 April 2009.

If you are reaching retirement age it's possible that many years have passed since you made your Will. Your own personal financial circumstances may have changed, children will have grown up and there may be grandchildren to consider. Your Will is one of the most important documents you will ever draw up and yet many people are complacent and let their Will get out of date, or worse still have no Will at all. Your Will is your opportunity to spell out exactly what you want to happen to your assets, what gifts you want to make and to whom, it is also your last opportunity to be tax-efficient. A review of your finances at the year end should undoubtedly include a review of your Will, and if you do not already have a Will then you should make one. Professional advice from a Tax Consultant should always be sought in

relation to the tax efficiency of your Will, particularly if you have agricultural or business assets in your Estate.

Those wishing to invest tax-efficiently but without tying up funds in pensions could invest in a Venture Capital Trust (VCT) or an Enterprise Investment Scheme (EIS). The investment limits are £200,000 per annum for VCTs (obtaining tax relief at 30%) and £400,000 per annum for EISs (with tax relief being given at 20%). Consequently, investment should be made by 5 April 2009 to use the current year's limits and obtain tax relief against your 2008/9 Income Tax liability. EIS investments also enable you to defer a Capital Gains Tax liability. In addition, EIS investments that have been held for at least two years are exempt from Inheritance tax, making them attractive for the elder investor.

As with all investment decisions, advice should be sought from an independent financial adviser such as my colleague Paul Dickson, who will consider your attitude to risk and the suitability of such investments.

For further information on how Armstrong Watson can help you call freephone 0800 195 2161 or email moneymatters@armstrongwatson.co.uk