

Happy New Year

By Bob Wheatcroft, Tax Partner at Armstrong Watson

This country is unique in many ways but one of the more unusual is the timing of the tax year. Most countries use the calendar year but, ever since we adopted the Gregorian calendar in 1752, our year has ended on 5 April. Mind you, it was 25 March before then and nobody else uses that either!

The new tax year will start this coming Monday. It will then be time to think about collecting details of income for the previous 12 months for tax returns or, in many cases, tax repayment claims.

It is always a good idea to do this early on in the year but this year there is a particular incentive for many people. Reduced incomes mean that large numbers of people will be paying too much tax on 31 July 2009 if they just go ahead and make the standard payment based on the previous year. It is not only earnings that will have been hit but, of course, the collapse in interest rates will have had a dramatic effect on investment incomes.

This calculation should not be done solely by guesswork. By sorting out your tax return early, you can make sure that you don't pay too much based on the confidence of real figures. The alternative of paying up and then claiming it back some time later in the year is much less attractive. You may even be able to claim back some of the tax you paid last January. At worst, you will know how much tax you will have to pay right up to July 2010 thus giving yourself plenty of time to budget and to see if there are ways to reduce it.

The new tax year will also present a whole new tranche of tax reliefs and exemptions.

In particular, those who have some spare cash to invest and have just decided how to use their ISA allowance for the current year, can double up. There is no rule that says you should only do an ISA in March. If you believe that the stock market has bottomed out, then you could miss out seriously by waiting until March 2010 to do an equity ISA. Of

course, that may not be the case but the beginning of the year is just as important a time to make that judgement as the end. You should, of course, seek independent financial advice before making any investment.

There is perhaps, less urgency if your plan is to have a cash ISA. Since interest rates are very low, you are unlikely to lose much by waiting.

The new year also brings with it a fresh exemption for Capital Gains Tax and an annual exemption for Inheritance Tax. If you plan now how to use them you can make sure they are not wasted.

A low stock market may also give you a chance to realise Capital Gains Tax losses. Putting those in the bank, as it were, at the beginning of the year may pay dividends later on.

The moral is plan well, plan early!

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