

Tax planning in bad times

By Bob Wheatcroft, Tax Partner at Armstrong Watson

It seems like a never ending spate of bad financial news. Those with properties and investments will have seen values plummet – others are faring even worse of course.

Optimists assure us that the recovery will happen but the truth of the matter is that none of us really know for sure when it will happen. Having said that, there is a real possibility that values will turn up in the next year or two and we will look back at the present time as close to the bottom of the market for both equities and property.

It is often the case that bad times also bring opportunities and the same is true here. Both Capital Gains Tax (CGT) and Inheritance Tax (IHT) are based on asset values and their impact is bound to be lower in times like this.

One example is that of share portfolios. Most investment advisers will recommend that investments should not be concentrated in any one company. Often in the past there would have been a significant CGT cost in rectifying the position but perhaps not now. You can clean up your investments for any future recovery and put yourself in a more balanced position without the additional pain of a large CGT liability.

Indeed, any readjustment of an investment portfolio is likely to result in less tax than previously at worst. You may wish to continue your exposure to the equity markets if you feel that we are nearing the bottom but there is no need to keep your investments in the same stocks.

For those who have assets standing at a Capital Gain then it is more complicated. Even so, a proper analysis of the position can often identify losses elsewhere which can be used to offset the gains. Sometimes it is better to crystallise losses in an earlier tax year than the gains you are hoping to cover and with the end of the tax year on 5 April fast approaching, then you need to start thinking quickly.

Inheritance Tax is based on the amount of the gift. If you die within seven years of making a gift, then the value is taken into account in calculating any tax due on your death. This means that making gifts whilst values are low makes good sense even if you are concerned about surviving this seven year period.

If, for instance, you make a gift now of shares worth £20,000 but, unfortunately die within seven years, then £20,000 is the value taken into account. This might seem obvious but, of course, the shares might be worth £25,000 by then. The rise in value is free of Inheritance Tax. The same principle applies to properties.

Of course, and as we have seen, equity and property values can go down as well as up. I certainly make no claims to having a crystal ball. Nevertheless, on the basis that significant falls have already taken place, the chances of the next move being up must be increasing. Certainly, the stock market normally turns up well before an economy actually comes out of recession.

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