

TaxAbility

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

2005/06 Edition

Have you spoken
to Clear Vision
about this issue?

Your small business

- | | | | | |
|---|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----|----|-----|
| 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> | Yes | No | N/A |
| 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.</i> | Yes | No | N/A |
| 3 | Have you made the most of your opportunities to save tax by investing in a personal pension?
<i>Tip: Pension contributions 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> | Yes | No | N/A |
| 4 | Have you reviewed your pension arrangements recently?
<i>Tip: The 1997 Budget effectively cut pension fund income by 20%. That, coupled with poor recent stock market performance, low interest rates and increasing longevity probably means a smaller pension for you when you come to retire. So, the sooner you start making plans and taking action to fill your personal pension gap, the better.
Tip: Further changes due in April 2006 mean that it is worth reviewing your pension position before then since there may be an advantage in making additional pension contributions under the current rules as opposed to the post April 2006 rules.</i> | Yes | No | N/A |
| 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.</i> | Yes | No | N/A |
| 6 | Have you considered whether there are any tax (or other) benefits from converting partnership/business loans and/or surpluses into personal loans - or vice versa?
<i>Tip: If you have money tied up in your business you may be able to take it out, replace it with a tax deductible business loan, and use the money you have taken out to repay/reduce your mortgage (on which you are getting no tax relief at all).</i> | Yes | No | N/A |
| 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> | Yes | No | N/A |
| 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 than shortly after your business year-end. It may also be better to take ownership rather than lease, as you may get tax relief quicker, even if you borrow the money from a bank or hire purchase company.</i> | Yes | No | N/A |

9	If your business has made losses in the past, have you made sure that those losses are being used to reduce your current tax bills by as much as possible?	Yes	No	N/A
10	If you run a very profitable limited company, have you done everything possible to make sure that your profits are taxed at 19% or 30%, instead of 32.75%? <i>Tip: Companies with profits of between £50,000 and £300,000 are taxed at 19%, while for profits of more than £1.5m the tax rate is 30%. But for profits of between £300,001 and £1.5m, the tax rate effectively jumps up to a staggering 32.75%.</i> <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. These rules also affect the tax position of many connected companies, and so professional advice should always be taken where there is more than one company with some common shareholders.</i>	Yes	No	N/A
11	If you run a slightly less profitable limited company, have you made sure that you are using whatever legitimate tactics are available to you to try to avoid having profits of between £10,000 and £50,000? <i>Tip: The changes announced in recent Budgets mean that something very strange happens to tax rates. Companies with profits of less than £10,000 pay no tax at all, as long as those profits are left in the business. Companies with profits of £50,000 to £300,000 pay 19%, as do those with profits of less than £10,000 who choose to withdraw this profit as a dividend. But, bizarrely, companies with £10,000 to £50,000 in profits pay an effective tax rate of 23.75%. Who says that the better off pay more tax!</i> <i>Tip: The associated companies rules mentioned in 10 above also apply here.</i>	Yes	No	N/A
12	If you run a one-man-band limited company, have you taken appropriate steps to ensure that the IR35 rules won't cost you a fortune in additional tax?	Yes	No	N/A
13	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? <i>Tip: You may firmly believe you are self-employed. But the Taxman may think differently. And it could cost you a lot of money. So we strongly recommend you take some good advice.</i>	Yes	No	N/A
14	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? <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>	Yes	No	N/A
15	If you trade through a limited company and pay your spouse or minor children dividends on shares they own that are not supported by work done, are you sure that the Taxman won't be able to tax those dividends as if they were your income? <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 or to the kids. 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.</i>	Yes	No	N/A
16	Have you planned ahead and taken action to minimise your tax bills when you eventually come to sell the business? <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 you should be able to keep much more of your money in your pocket... and not in the Taxman's</i>	Yes	No	N/A
17	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 announced in the March 2000 Budget? <i>Tip: Companies spending more than £10,000 a year on R&D can 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.</i>	Yes	No	N/A

18	<p>Have you considered making greater use of business gifts as a marketing tool now that the March 2001 Budget has made this cheaper?</p> <p><i>Tip: In the past the cost of business gifts was only tax deductible for you if they (a) contained a conspicuous advert for your business, and (b) were NOT food, drink, tobacco or tokens or vouchers exchangeable for goods, and (c) they did not amount to more than £10 per person a year. The March 2001 Budget increased the limit in (c) to £50 – which, for many businesses, makes business gifts worth looking at again.</i></p>	Yes	No	N/A
19	<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?</p> <p><i>Tip: From April 2005, if your sales in the previous 12 months are more than £60,000 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
20	<p>If your sales are less than £660,000 a year, are you making VAT potentially much easier and cheaper for your business by making the most of the annual accounting and cash accounting schemes?</p> <p><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
21	<p>If your sales (excluding VAT) are less than £150,000, have you considered switching to the flat rate VAT accounting scheme?</p> <p><i>Tip: Under the flat rate VAT scheme smaller businesses do not need to keep full records of invoices received and issued. Instead they are allowed to pay VAT as a flat rate percentage of their sales.</i></p> <p><i>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
22	<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?</p> <p><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 include YOU if your business is a limited company!)

23	<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?</p> <p><i>Tip: The July 1997 Budget made every single pension fund in the country worse off. And that – along with recent poor stock market performance, lower interest rates and increased life-expectancy - means that your staff will probably end up getting smaller pensions when they retire unless somebody starts making bigger contributions now. Who is that ‘somebody’ going to be? 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
24	<p>Have you explored how to use pensions to cut your wage bill by up to 23.8%?</p> <p><i>Tip: Under what are known as “salary sacrifice” schemes, it is possible to save up to 23.8% of 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
25	<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?</p> <p><i>Tip: Some of your options might include an Executive Pension Plan (EPP), a Small Self 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.</i></p> <p><i>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?</i></p> <p><i>Tip: As mentioned in 4 above, further changes due in April 2006 mean that it is worth reviewing your pension position before then.</i></p>	Yes	No	N/A

26	<p>Do you fully understand how to calculate the tax value of benefits in kind?</p> <p><i>Tip: Under self assessment 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></p>	Yes	No	N/A
27	<p>Have you told the Taxman about any changes to your company cars or who uses them?</p>	Yes	No	N/A
28	<p>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?</p> <p><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></p>	Yes	No	N/A
29	<p>If your employees use their own cars for company business, have you looked at how the new mileage rules introduced in 2002 have affected them and the business?</p> <p><i>Tip: From 6 April 2002 employees who use their own cars on company business have been considerably worse off if those cars are over 2000cc. This is because in the past you were able to pay them up to 63p per business mile tax free - whereas now the most you are able to pay them tax free is 40p per business mile, dropping to 25p per business mile after 10,000 business miles.</i></p>	Yes	No	N/A
30	<p>Have you considered providing your employees with new low emission cars?</p> <p><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.</i></p>	Yes	No	N/A
31	<p>Have you planned for the new rules for employees taking home company vans?</p> <p><i>Tip: From 6 April 2005, employees who have to take home the company van (for example, who are on call), and for whom other private use is forbidden, will not be charged tax. Where private use is unrestricted, the £500 or £350 scale charge will apply dependent upon the age of the van. 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. Remember that the definition of 'van' may include pick-up trucks.</i></p>	Yes	No	N/A
32	<p>Are you certain that you make the most of tax-free benefits in kind for your staff?</p> <p>Some of the possibilities include:</p> <ul style="list-style-type: none"> ■ Providing mobile phones ■ Lending computers to staff ■ 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 providing free meals and refreshments to encourage employees to take part in official cycle to work days 	Yes	No	N/A
33	<p>If you use contract workers and freelancers, have you made absolutely sure that the Taxman has no grounds for treating them as your employees?</p> <p><i>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</i></p>	Yes	No	N/A

freelancers - but the Taxman regarded as employees.

- | | | | | |
|----|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----|----|-----|
| 34 | 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?
<i>Tip: Tax-free gifts can now be worth up to £50 for each year of service (up to a maximum of 20 years).</i> | Yes | No | N/A |
| 35 | If your employees sometimes work from home, are you using the new rules so that you can reimburse them tax free?
<i>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</i> | Yes | No | N/A |
| 36 | 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?
<i>Tip: This is possible if your average monthly PAYE and NIC payments are less than £1,500</i> | Yes | No | N/A |
| 37 | Have you looked at the possibility of motivating and rewarding your staff by giving them share options?
<i>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.</i> | Yes | No | N/A |
| 38 | 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?
<i>Tip: You may be eligible to claim these credits too.</i> | Yes | No | N/A |
| 39 | Are you sure that you are staying on the right side of the minimum wage law?
<i>Tip: The minimum wage is currently £4.85 an hour for people aged 22 and over. For those aged 18-21 the minimum wage is £4.10 an hour. And for 16 and 17 year olds it is £3.00. Tip: These rates will be increasing again in October 2005 – to £5.05 in the case of workers 22 and over, and to £4.25 for 18-21 year olds.</i> | Yes | No | N/A |
| 40 | Have you advised your employees to check their 2005/06 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 |

And now for two reminders for the end of the tax year in April 2006...

- | | | | | |
|----|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----|----|-----|
| 41 | If you have a company pension scheme, have you reminded your staff (and yourself) that the 2005/06 annual allowance for making additional voluntary contributions ('AVCs') must be used by 5 April 2006 or else it will be lost forever?
<i>Tip: It is usually much more tax-efficient for the company to contribute to a pension scheme rather than the employee.</i> | Yes | No | N/A |
| 42 | Have you asked the Inland Revenue for P11D dispensations to reduce your paperwork?
<i>Tip: By agreeing a dispensation with the Revenue in advance of making the payment, you do not have to report it on a P11D.</i> | Yes | No | N/A |

Your family

- | | | | | |
|----|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----|----|-----|
| 43 | Have you made a will? Have you updated it recently? And is it IHT efficient?
<i>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!</i> | Yes | No | N/A |
| 44 | 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 |

45	<p>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?</p> <p><i>Tip: The 2000 and 2002 Budgets made it even easier to get the Taxman to contribute a significant amount (to both the charity and to you) every time you make a donation. It is now also possible to make a gift in one tax year and carry it back to the previous year, perhaps giving extra tax relief.</i></p>	Yes	No	N/A
46	<p>If you are planning on moving home, have you explored the possibility of taking a business loan instead of a mortgage?</p> <p><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></p>	Yes	No	N/A
47	<p>Have you considered changing your mortgage?</p> <p><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?</i></p>	Yes	No	N/A
48	<p>Now that tax relief on mortgages has been abolished, have you considered reducing your mortgage, or using a flexible or offset mortgage?</p> <p><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></p>	Yes	No	N/A
49	<p>Have you made full use of the fact that each of your children can earn up to £4,895 a year as income and £8,500 a year in capital gains - completely tax free?</p> <p><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></p>	Yes	No	N/A
50	<p>If your estate is large have you considered</p> <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? <p><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></p>	Yes	No	N/A
51	<p>If you are intending to pay for private education for your children, have you either taken steps to either put enough money aside to fund it, and/or explored the possible tax breaks to make the money go further?</p> <p><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.</i></p>	Yes	No	N/A
52	<p>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?</p> <p><i>Tip: At very least you should aim to make sure that neither spouse wastes their £4,895 tax 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.</i></p>	Yes	No	N/A

Your investments

53	<p>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?</p>	Yes	No	N/A
----	------------------------------------------------------------------------------------------------------------------------------------------------------------------------	-----	----	-----

- | | | | | |
|----|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----|----|-----|
| 54 | <p>Have you considered investments that give you a tax free return? For example: National Savings Certificates, Friendly Societies and ISAs</p> <p><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. So far, UK taxpayers have invested over £160 billion in ISAs. But this very valuable tax shelter is due to come to an end in 2010. So if you want to earn tax free interest it is worth investigating the suitability of ISAs immediately.</i></p> | Yes | No | N/A |
| 55 | <p>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?</p> | Yes | No | N/A |
| 56 | <p>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?</p> <p><i>Tip: Everybody is allowed to make £8,500 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></p> <p><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. Although you will, of course, be taking a risk that the price of those shares may have gone up in the meantime!</i></p> | Yes | No | N/A |
| 57 | <p>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?</p> <p><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></p> | Yes | No | N/A |
| 58 | <p>Have you considered the four main ways of getting tax relief on the full cost of your investments and not just on the interest you earn on those investments?</p> <p><i>Tip: The main examples are pensions, venture capital trusts, investments in enterprise zone properties and investments under the enterprise investment scheme. The last two can be very risky. Never invest more than you can afford to lose and always take professional advice before investing.</i></p> | Yes | No | N/A |
| 59 | <p>If you are considering investing in property (other than your home), have you considered taking out a loan to finance the purchase?</p> <p><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 will 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></p> | Yes | No | N/A |

This checklist is designed to alert you to some of the major issues you should be considering in the light of the March 2005 Budget proposals. It is not a replacement for professional advice tailored to your precise needs and circumstances.

We strongly recommend that you contact Clear Vision today to discuss any questions where you have answered "No".

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

Clear Vision Accountancy Limited
1 Abacus House
Newlands Road
Corsham
Wiltshire SN13 0BH