CHARTERED ACCOUNTANTS, TAX CONSULTANTS & FINANCIAL PLANNERS

ALBERT GOODMAN

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ANOTHER HIKE IN CAR BENEFIT CHARGES

For many years the government has been increasing the tax charge on company cars provided to employees. For example, in 2007/08 the taxable benefit in kind (BIK) on a petrol car with emissions of 200g/km was 27% of the original list price; in 2015/16 this will be 35%. In addition, the new tax year will see the abolition of the zero rate band meaning even fully electric vehicles are now a BIK. Of course, cheaper cars and cleaner cars will still give rise to lower benefit charges.

If you are looking to replace any cars soon, it may be more beneficial for both the practice and the employee to consider a car allowance paid as extra salary, for a car to be purchased privately. The employee would just claim expenses at the normal 45/25ppm rates, with no BIK to be reported. This is especially beneficial where you provide used cars, as the taxable benefit is calculated with reference to the list price, not the price you paid.

Alternatively, and particularly for large animal practices, consider replacing cars with vans. These have a much lower BIK than cars, and may even be totally tax-free if used only for commuting and business purposes. As well as obvious vehicles such as a Transit van, HMRC's definition of vans also includes some variants of, for example, the Mitsubishi L200 or Toyota Hilux, which will have a lower BIK than a 'car' with the same list price and emissions.

If you would like us to calculate the net cost of various vehicles to your practice and your staff, please get in touch.

EFFICIENT PROFIT EXTRACTION – ACT NOW

For vets who trade through a limited company, March is a good time to take stock of the dividends you have drawn this year to date, against what you expect to draw next year. Broadly speaking, the key here is to try and draw the same total dividends each year. If you are expecting a very profitable 2015/16 then additional dividends before April may ensure the 40% tax band is utilised in full for both years. Conversely, if 2015/16 profits may be lower, deferring dividends until the next tax year may be a better idea. Remember that dividends cannot be back-dated, so tax planning opportunities may be lost after 5 April.

As ever, taxation of higher earners is riddled with nuances; if your gross earnings are between £100-£120K, your effective rate of tax is actually 60% (or 62% for partnership profits) due to the loss of your Personal Allowance. If annual dividends (or profit shares) are in this region, we can plan your remuneration policy to help you avoid this trap.

Another way to reduce your overall tax bill for 2014/15 – and this applies to partners as well as directors – is pension contributions. Tax relief on pensions is very generous, especially considering recent pension reforms (see below), although there are annual contribution caps.

PENSION REFORM – WHAT DOES IT ALL MEAN?

Whilst the changes to pensions don't impact on members of public sector schemes, from 6 April of this year, those aged 55 or over with so called 'money purchase' pension schemes, will have unrestricted access to their 'pension pots'.

Many of the key benefits of pensions remain unchanged. The Annual Allowance (currently £40,000), hasn't changed. This being the level of pension contribution that an individual and/or their employer can make each tax tear and above which tax relief cannot be claimed.

The ability to 'carry forward' unused pension tax relief for up to three years also stays, so an individual who has made no pension contributions in the current or previous three years could potentially make a contribution of up to £190,000, before 5 April, subject to a few conditions.

The maximum value of pension benefits that a person can accrue, tax-free, during their working life, the Lifetime Allowance, remains unchanged, at £1.25m. Unfortunately, the potential 55% tax charge than can apply to pension benefits accrued above the lifetime allowance (so called 'excess benefits') remains.

The minimum age at which pension benefits can be taken remains at 55 and the maximum lump sum that can be taken, tax-free, remains at 25% of an individual's total pension fund.

Payments in excess of the maximum 25% lump sum, as now, will be treated as income and taxed accordingly, at the individual's marginal rate of income tax, which could be as high as 60%, if their total earnings fall between £100,000 and £120,000 per annum.

Anti-avoidance rules have also been brought in, to prevent those aged 55 or over from taking pension contributions in lieu of salary (and hence avoiding National Insurance).

Those currently under 50 have time to consider the changes. However those approaching 55, especially those with "deferred" pensions, should seek advice from a pension specialist **before** taking any action. This is because most decisions made in relation to taking benefits from pension funds are irrevocable and many looking to take full advantage of the new rules will need to carry out remedial work to existing pension arrangements.

If you would like to find out more about Pension Reform and how you can benefit from it please get in touch.

If you, or colleagues, would like to receive this newsletter by e-mail, please send an e-mail to **marketing@albertgoodman.co.uk**

CONTACT

If you would like to arrange an initial no-obligation meeting, at no cost, to discuss any of the matters raised in this newsletter, or to find out how Albert Goodman can benefit you or your practice please do not hesitate to contact **Peter Watkins on 01823 286096 or peter.watkins@albertgoodman.co.uk**

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