



## PERSONAL TAXATION

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### PERSONAL TAXATION

Most private individuals will at some stage become involved with tax matters. For someone not used to dealing with financial affairs it can be a worrying and daunting prospect. The purpose of this leaflet is to try and give a brief simple outline and remove some of the mysteries surrounding Personal Taxation.

For the private individual there are three main Personal Taxes namely Income Tax; Capital Gains Tax and Inheritance Tax.

Whilst there are other taxes such as Value Added Tax, it is Income Tax, Capital Gains Tax and Inheritance Tax that are discussed in this leaflet.

#### INCOME TAX

Perhaps the most familiar of all taxes, Income Tax has been with us for many years. For anyone in receipt of a salary or wages Income Tax is deducted by the employer before the wages or salary reach the individual. Any one who is self employed will need special advice.

The basis of Income Tax is both fair and reasonably straightforward. Problems will only arise if the taxpayer tries to cheat or fails to make full disclosure.

Income Tax applies to an individual's income for a tax year ending on 5 April.

Income means wages or salary; bonus payments, tips and commissions; benefits from employment such as the provision of a motor car; interest from savings; dividends; rents and profits from land and any regular periodic payment.

The taxpayer is entitled to set reliefs and personal allowances against income. Every individual is entitled to a basic personal allowance (sometimes called single person's allowance) and the allowance usually changes in each year. In essence the allowance is the amount a taxpayer can receive without paying any Income Tax. Higher allowances are given to those aged 65 and over.

There have been changes in Working Families Tax Credit and child tax relief designed to assist people on low or middle income. These rules are complicated and you may need to take further advice.

Interest payable on certain types of loans may qualify for relief such as those for a business.

There are also special reliefs available to encourage charitable giving.

Currently Income Tax is charged at 2 rates of tax:

- a basic rate of 20%
- a higher rate of 40%

The rates often change each year.

Savings income (e.g. Bank or building society interest) is also charged at the 20% rate.

#### CAPITAL GAINS TAX

The sale, at a profit, of almost all types of assets will involve this tax. Capital Gains are calculated for each tax year and any tax is then payable at the end of January following. e.g. a disposal made in June 2009 falls within the tax year ending 5<sup>th</sup> April 2010, any capital gains tax is payable by the end of January 2011.

Each tax payer is allowed an annual exemption - at present £10,100 - this means that provided all gains in a tax year amount to less than £10,100 no Capital Gains Tax is due. Tax is charged at 18% on the profit (less any allowances) made.

Married couples each have an annual exemption. Moreover there is no tax charge on gains made by transferring an asset from one spouse to another.

The tax payer can deduct the costs of acquisition and expenses of disposal, and any money spent on enhancing or improving the asset.

As previously stated almost all types of assets are subject to this tax, including Stocks and Shares; land and real property; furniture and chattels. Certain assets are specifically exempt from the tax and these include winnings from betting, compensation and damages for a wrong or injury suffered; Guilt Edge Securities; ISAs and the sale of an individual's home provided it is the principal private residence. This is not an exhaustive list.

Remember, the tax extends to the disposal of an asset by way of gift or a transfer at an undervalue. Although cash does not change hands the Revenue Authorities will fix a value for the asset being transferred or gifted, based upon its actual market value and calculate any tax accordingly.

## **INHERITANCE TAX**

This tax is charged upon the individual's wealth on death. It is popularly known as death duty.

Upon death all the tax payer's savings and assets are added together. This includes Stocks, Shares, land, buildings, business interest, Bank/Building Society accounts, National Saving Certificates, jewelry, motor and other vehicles. In addition any gifts which the taxpayer made within the preceding 7 years of death are brought back into account. If the deceased taxpayer received income from a trust or a settlement then a proportion of capital of the trust or settlement supporting the income is also brought into account.

If the total of all the tax payer's assets exceed the tax threshold (currently £325,000) Inheritance Tax is charged on the excess at a flat rate of 40%. If your spouse dies before you any unused percentage of his Inheritance Tax threshold can be taken into account on your death. Potentially therefore your tax threshold may be as much as £650,000. This does not apply to cohabittees.

In establishing the value of the deceased tax payer's estate there are a number of major exemptions and allowances including: -

- The value of all gifts or transfers to a surviving spouse are exempt.
- The value of any gifts to charities or political parties are exempt.
- Any interest in agricultural or business property will attract special relief (which can be up to 100%)

- Gifts made by the taxpayer not exceeding £3,000 per annum or falling within his normal and reasonable expenditure are excluded.

Monies due from a pension/superannuation fund which is written in trust or certain Insurance Policies written in trust will not normally be included in the deceased's estate for Inheritance Tax purposes.

As previously indicated lifetime gifts are not brought into account unless made within the 7 years preceding the date of death. When made, lifetime gifts are "potentially exempt transfers" and if the taxpayer lives 7 years or longer the gifts escape the tax. There is a major exception to this rule where, having made a gift, the taxpayer continues to enjoy a benefit from it. Thus if the tax payer gave his house to his children but continued to live in the property rent free, the gift will be brought into account no matter how many years after it was made the tax payer dies.

**It is a basic principle of tax law that each individual may organise his or her affairs to ensure that only the minimum tax is paid.**

If you require any further information on any of the above matters please contact Mr J D Kitchen, Mrs D K Ryan, Mrs K M Smith or Mrs C M P Watson.



This pamphlet is intended as a general guide only. Our advice should be sought on specific issues.