Year End Tax Planning Review.

With 5 April 2008 closing in, it is vital to ensure tax benefits are not lost. Here are some important considerations when planning to reduce any potential tax liability.

If you have a potential inheritance tax liability it is possible to make a gift to utilise your annual exemption of £3,000. If you failed to use your £3,000 annual exemption in 2006/07, it can be brought forward to the current tax year, increasing this year's annual exemption to £6,000. You should also where appropriate make regular gifts out of income, which are free from inheritance tax, even if death occurs within seven years. This valuable exemption does not have a monetary limit, but requires the gift to be part of a regular pattern that leaves the donor with sufficient income to maintain his/her usual standard of living.

Separate gifts of up to £250 can also be made to any number of individuals in a tax year. Lifetime gifts should also be considered, in addition to those mentioned above, to start the seven-year clock running and mitigate IHT on death. This can be done by way of outright gifts or gifts into a trust. However, if the gift being made is a chargeable lifetime transfer, it may be worth delaying this until after 5 April 2008 to benefit from the increased nil-rate band - the 2008/09 nil-rate band will be increased from £300,000 to £312,000, resulting in a £4,800 IHT saving (£12,000 @ 40%).

It is always advisable, whenever possible, to make use of tax-efficient investments such as ISAs or National Savings. The current ISA subscription levels are Maxi ISA - £7,000 (maximum of £3,000 invested in cash). If you are fully funded for this year, the new ISA limits from 6 April 2008 allow a maximum investment of £7,200 of which £3,600 can be cash.

Personal allowance and tax rate bands-by just making full use of the allowance and the tax bands can save a large amount of income tax. Where it is possible to control payments of salary, bonuses and the issue of dividends, either: Bring these forward to before 5 April to use up any unused personal allowances and tax rate bands; or defer these until after 5 April 2008 for those individuals who have already used up their allowances and tax rate bands.

Be aware of the proposed 'income shifting' legislation from 6 April 2008 to husband & wife/civil partner/companies, where the salary/bonus/dividend paid is not commensurate with the work done. Where possible, look to spread income-producing assets between spouses/civil partners where one is a higher rate taxpayer, and the other is not. Carry out this planning now for next year if it is too late for the current tax year.

Pension Contribution. A pension contribution is a highly tax effective investment. Not only can it reduce income tax liability, attracting immediate tax relief on contributions at your highest rate but it can also help reduce income to maximise any age allowance and child tax credits that may be available.

Annual CGT exemption. The current tax year is one of the most important when it comes to deciding what to do with assets that fall within the CGT regime. But it is always good to undertake basic tax planning in order to maximise the exemptions and tax bands available. Every individual is entitled to an annual capital gains tax exemption. This is £9,200 for the tax year 2007/08 and is worth up to £3,680 in terms of tax (£9,200 @ 40%). Investors should look at utilising this exemption where possible.

The Pre-Budget Report proposed significant changes from 6 April 2008, including a flat rate of 18% on capital gains, the abolition of taper relief and the withdrawal of indexation allowance (applicable to assets owned prior to April 1998): So effective tax planning could not be more important this year.

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