TAX PLANNING IN A RECESSION - How to Make a Tax Advantage in the Recession

By Ian Wright

Share Portfolios

Your share portfolio may have reduced by 1/3 or more. By selling off the loss making stock, you could create a capital loss which can be used for current or future capital gains. If your intention is to keep the portfolio then more stock can be purchased but you have to watch out for the 30 day rule on matching shares. You could keep the disposal proceeds in cash for 30 days or, if possible, reinvest in different shares than were sold. If you are keen to keep your portfolio as it stands but still take advantage of your losses as a married couple, you could 'bed and spouse'.

This is almost like swapping shares except that the shares are bought and sold on the open market. For example, Mr Smith sells his Barclays shares and then buys BP shares. At the same time Mrs Smith sells her BP shares and then buys Barclays shares. This method avoids the 30 day matching rules and results in the married couple owning the same shares.

Decreased Stock

For those in business you may find that your stock is not actually worth as much as it was some six months ago and as such you are allowed to revalue your stock to the lower of cost or net realisable value. The net realisable value is the expected sale price of the relevant stock in the condition in which it is expected to be sold in the trader's normal selling market. From that value are deducted the estimated further costs which will have to be incurred to get the stock into its normal sale condition to arrive at the net realisable value.

A realistic revaluation of the stock could be enough to create a tax loss which could then, in turn, be used to create a much needed tax refund by either setting off the loss against income elsewhere, or carrying the loss backwards against profits achieved in better times. If it does not create a tax loss then a reduction in profit is always welcome when calculating your tax liability!

Carrying Back Losses

The government has now extended the tax provisions for carrying back tax losses for established businesses. Usually, an established business can either carry forward losses, set losses against income in the same year or carry back the losses into the previous tax year. Any hope of carrying back losses beyond one year were only possible with new businesses or businesses which were terminating under the opening years and terminal loss relief rules.

The recent budget has extended the already proposed extension to the general carry back rules by allowing businesses to carry back losses by up to three years against later years first. The extension only applies to losses made in the 2008/09 and 2009/10 tax years for unincorporated businesses and for companies who make trading losses in accounting periods between 24 November 2008 and 23 November 2010.

Of course, there are restrictions. The normal one year carry back remains unlimited in the amount of loss that you can carry back, however the carry back into the further two years is limited to £50,000. Both 2008/09 and 2009/10 will have a £50,000 limit each rather than £50,000 to be shared by both loss making years, making losses worth up to £100,000 made between 2008/09 and 2009/10 available against profits made as far back as 2005/06.

For new and terminating businesses there are special rules for opening years and closing years of business that may be more favourable than the government's budget rules. Which loss rules to use depend on when your income was good and tax was paid. Carefully planned loss claims could help you with a much needed tax refund in this unfortunate time!

Paying Your Taxes

Under the Business Payment Support Service at HMRC you can enter into a payment plan to help pay your income tax, PAYE, corporation tax, VAT and National Insurance Contributions. All you need to do is call 0845 302 1435 and you could be surprised by how helpful the tax office are.