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# Year End Tax Planning Guide

Would you like the opportunity to reduce the taxman's take from your own and your family's income? If so read on, as carrying out an annual review of your tax affairs could significantly reduce your own and your family's tax liabilities.

The period leading up to the end of the tax year on 5 April is one of the best times to review your taxes and finances and indeed taking action prior to the end of the tax year in some cases will give even greater saving opportunities, so do not delay! As always we would be delighted to discuss with you the issues involved and any appropriate action you may need to take.

## Tax saving tips for the family

Throughout this publication the term spouse includes a registered civil partner. We have included the relevant amounts for 2014/15 and where the 2015/16 figures are available these are shown in brackets.

Each spouse is taxed separately, and so it is an important element of basic income tax planning that maximum use is made of personal reliefs and the starting and basic rate tax bands. It may be necessary to consider gifts of assets (which must be outright and unconditional) to distribute income more evenly.

Currently, a transfer of just £1,000 of savings income from a higher rate (40%) taxpaying spouse to one with income below the personal allowance of £10,000 (£10,600) may save up to £400 a year. For those paying the additional rate of tax of 45%, which applies to those with taxable income above £150,000, the saving may be £450 a year.

### Tip

Historically, it has not been possible to transfer the personal allowance between spouses. However, in a change to the rules a transfer of up to £1,060 of the personal allowance is possible for 2015/16 where neither spouse pays tax at above the basic rate.

Income from spouse jointly owned assets is generally shared equally for tax purposes. This applies even where the asset is owned in unequal shares unless an election is made to split the income in proportion to the ownership of the asset. The exception is dividend income from jointly owned shares in 'close' companies which is split according to the actual ownership of the shares. Close companies are broadly those owned by the directors or five or fewer people.



### Tip

If you are self-employed or run a family company, consider employing your spouse or taking them into partnership as a way of redistributing income. This could be just as relevant for a property investment business producing rental income as for a trade or profession.

### Comment

Care must be taken because HMRC may look at such situations to ensure that they are commercially justified. If a spouse is employed by the family business, the level of remuneration must be justifiable and the wages actually paid to the spouse. The National Minimum Wage rules may also impact.

### Child Benefit

If you are in receipt of Child Benefit and either you or your live-in partner (widely defined) have income above £50,000, then it is possible that you may have to pay back some or all of the benefit through the High Income Child Benefit Charge. If you think this may affect you please contact us as it might be possible to reduce the impact of this charge. This could be achieved by reducing your income for this purpose. Methods include making additional pension contributions or charitable donations or reviewing how profits are shared and extracted from the family business.

### Children

Children have their own allowances and tax bands. Therefore it may be possible for tax savings to be achieved by the transfer of income producing assets to a child. Generally, this is ineffective if the source of the asset is a parent and the child is under 18. In this case the income remains taxable on the parent unless the income arising amounts to no more than £100 gross per annum.

### Tip

Consider transfers of assets from other relatives (eg grandparents) and/or employing teenage children in the family business to use personal allowances and the basic rate tax band.

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## Want a 'Nest Egg' for your children?

A Junior ISA (for children born from 3 January 2011) or Child Trust Fund (CTF) accounts offer tax free savings opportunities for children. Existing CTF accounts continue alongside the Junior ISA (a child can only have one type). The government has previously decided that a transfer of savings from a CTF to a Junior ISA should be permitted at the request of the registered contact for the CTF. The government has confirmed the measure will have effect from 6 April 2015.

Both CTF and Junior ISA accounts allow parents, other family members and friends to invest up to £4,000 (£4,080) annually in a tax free fund for a child. There are no Government contributions and no access to the funds until the child reaches 18.

## Non-taxpayers

Children or any other person whose personal allowances exceed their income are not liable to tax. Where income has suffered a tax deduction at source a repayment claim should be made. In the case of bank or building society interest, a declaration can be made by non-taxpayers to enable interest to be paid gross.

### Tip

Tax credits on dividends are not repayable so non-taxpayers should ensure that they have other sources of income to utilise their personal allowances.

# Giving to charity

Charitable donations made under the Gift Aid scheme can result in significant benefits for both the donor and the charity. Currently, the charity is able to claim back 20% basic rate tax on any donations and if the donor is a higher rate taxpayer the gift will qualify for 40% tax relief. Therefore a cash gift of £80 will generate a tax refund of £20 for the charity so that it ends up with £100. The donor will get higher rate tax relief of £20 so that the net cost of the gift is only £60.

Where the 45% additional rate of tax applies, the net cost of the gift in this example would be only £55 for an individual liable at this rate.

Tax relief against 2014/15 income is possible for charitable donations made between 6 April 2015 and 31 January 2016 providing the payment is made before filing the 2014/15 tax return.

Always remember to keep a record of any gifts you make.

It may also be possible to make gifts of quoted shares and securities or land and buildings to charities and claim income tax relief on the value of the gift. This may be tax efficient for larger charitable donations.

# Family companies

If the payment of bonuses to directors or dividends to shareholders is under consideration, give careful thought as to whether payment should be made before or after the end of the tax year. The date of payment will affect the date tax is due and possibly the rate at which it is payable.

### Tip

Remember that any bonuses must generally be provided for in the accounts and actually be paid within nine months of the company's year end to ensure tax relief for the company in that period.

Careful planning before 5 April 2015 may be particularly useful for individuals with high incomes. The effect of deferring payments may save paying the High Income Child Benefit Charge for those with incomes in excess of £50,000, personal allowance for those with an income in excess of £100,000 and 45% tax for those with an income in excess of £150,000.

Alternatively, consider the payment of an employer's pension contribution by the company. This is generally tax and National Insurance contribution (NIC) free for the employee (but see Pensions section). Furthermore, the company should obtain tax relief on the contribution, provided the overall remuneration package is justifiable.

## Loans

It is common in family companies for a director/shareholder to have 'loan' advances made to them by the company (e.g personal expenses paid by the company). These are accounted for via a 'director's loan account' with the company which may become overdrawn.

Where the overdrawn balance at the end of an accounting period is still outstanding nine months later a tax charge arises on the company. Where the balance is repaid there is no tax charge. Rules have been introduced to catch certain arrangements where loan balances are repaid but shortly afterwards the company provides another loan to the shareholder. These rules do not apply where there is a genuine repayment through the award of a valid bonus/dividend. If monies are repaid and then a new loan provided in other situations there may be a tax charge. If you are concerned about whether this could apply to your company, we would be happy to review this area.

## Capital allowance changes

When assets are purchased for the business, such as machinery, office equipment or motor vehicles, capital allowances are available. As with expenses, these are deducted from income to calculate taxable profit.

## Annual Investment Allowance (AIA)

Currently the AIA gives a 100% write off on

most types of plant and machinery costs, but not cars, of up to £500,000 per annum from April 2014 (1 April for companies 6 April for unincorporated businesses). The AIA is due to revert back to £25,000 from 1 January 2016. Special rules apply to accounting periods straddling April 2014 and January 2016 when the amounts of available AIA changes.

Any costs over the AIA will attract an annual ongoing allowance of 8% or 18% depending upon the type of asset.

### Tip

Clearly where full relief is not obtained in the initial period there will be further tax relief in subsequent years but maximising tax relief early has an important impact on tax cash flow.

Please contact us for further advice if you have any plans for new plant and machinery purchases. The timing and method of such acquisitions may be critical in securing the maximum 100% entitlement available.

In addition to the AIA all businesses are eligible for a 100% allowance, often referred to as an enhanced capital allowance, on certain energy efficient plant and low emission cars.

## Motor cars

The tax allowance on a car purchase depends on CO<sub>2</sub> emissions. For purchases from April 2013 cars with emissions of up to 130 grams per kilometre (g/km) attract an 18% allowance and those in excess of 130g/km are only eligible for an 8% allowance.



# Employee benefits

Few avoid working for others at some time in their life and most will have encountered the PAYE system operated by employers to collect the income tax and NIC due on wages and salaries and to collect the tax on benefits.

## The tax code

Ensuring the right amount of tax is taken relies on a PAYE code, issued by HMRC and is based on information given in a previous self assessment return or supplied by the employer. The employee, not the employer, is responsible for the accuracy of the code.

Code numbers try to reflect both your tax allowances and reliefs and also any tax you may owe on employment benefits. For many employees matters are simple. They will have a set salary or wage and only a basic personal allowance. Their code number will be 1000L (1060L) and the right amount of tax should be paid under PAYE. For those who are provided with employment benefits or have more than one job and/or receive pension income, the code number is generally adjusted to collect the tax due, so that there are no nasty underpayment surprises.

HMRC may also try to collect tax on untaxed income or tax owing from an earlier year. The code may even try to allow for higher or additional rate tax that has to be paid on investment income. With so many complications and some guess work involved, getting the code exactly right can be difficult and the right amount of tax will not always be deducted.

### Tip

If you are unsure about your code and are anxious not to end the tax year under or overpaid, then you should have it checked. Please talk to us.

## Cars and Fuel

Employer provided car benefits are calculated by reference to the CO<sub>2</sub> emissions and the car's list price. The level of business mileage is not relevant. The greener the car, the lower the percentage charge. Percentage charges are increasing year on year, and for 2014/15 range from 0% to 35%. The range increases for 2015/16 starting at 5% and rising to 37% of the list price of the car.

### Tip

Check your position to confirm that an employer provided car is still a worthwhile benefit. It may be better to receive a tax free mileage allowance of up to 45p per mile for business travel in your own vehicle. If an employer provided car is still preferred, consider the acquisition of a lower CO<sub>2</sub> emission vehicle on replacement to minimise the tax cost.

Where private fuel is provided, the benefit charge is also based on CO<sub>2</sub> emissions. We can review your procedures to ensure no unnecessary tax charges arise.

## Cheap or interest free loans

If loans made by the employer to an employee exceed £10,000 at any point in a tax year, tax is chargeable on the difference between the interest paid and the interest due at an official rate - currently 3.25%. An exception applies for certain qualifying loans - please contact us for information.

# National insurance

For a family business it is generally worthwhile paying wages to a spouse of between £111 (£112) (the employee lower earnings limit) and £153 (£155) (the employee threshold) per week. At this level of earnings no NIC will be due. The employee will accrue entitlement to a state pension and certain other state benefits.

### Tip

A PAYE scheme would be needed to record the employee's entitlement to benefits and the wages.

For the self-employed there is a requirement to pay a flat rate contribution (Class 2). If your profits are low you can apply for exemption. The limit is £5,885 (£5,965). If contributions have been paid for 2014/15 and it subsequently turns out that earnings are below £5,885 a claim for repayment of contributions can be made. The deadline for this claim is 31 January 2016.

On the other hand as the contributions are only £2.75 (£2.80) a week it may be advisable to pay the contributions in order to maintain a contributions record. The alternative voluntary Class 3 contributions are £13.90 (£14.10) a week!



# Capital gains

No significant changes have been made to the system of Capital Gains Tax (CGT) in 2014/15 so:

- gains (after deduction of an annual exemption) are added to income to determine the rate of CGT
- Entrepreneurs' Relief (ER) gives a 10% tax rate on the first £10 million of qualifying business gains, for each individual over their lifetime
- an 18% rate applies to other gains to the extent that they fall within the basic rate band
- a 28% rate applies to remaining gains.

Please contact us to discuss any planned business or company share disposals so that we can help to establish the correct approach to secure the availability of any ER.

## Annual exemption

The first £11,000 (£11,100) of gains are CGT free being covered by the annual exemption. Each spouse has their own annual exemption, as indeed do children. A transfer of assets between spouses may enable them to utilise their annual exemptions. Consider selling assets standing at a gain before the end of the tax year to use the annual exemption. Bed and breakfasting (sale and repurchase) of shares is no longer tax effective but there are two variants which still work:

- sale by one spouse and repurchase by the other
- sale followed by repurchase via an Individual Savings Account.

These techniques may also be used to establish a loss that can be set against any gains.

## Other ideas

A capital loss can be claimed on an asset that is virtually worthless. Where the asset is of 'negligible value' by 5 April 2015 the capital loss can be used in 2014/15.

Moving abroad can take you outside the CGT net. However, it is clearly not a decision to be taken lightly and requires very careful planning. Please talk to us if this is an area of interest for you.

See the Investments section for more options.

No CGT planning should be undertaken in isolation. Other tax and non-tax factors may be relevant, particularly inheritance tax, in relation to capital assets.

# Pension contributions

There are many opportunities for pension planning but the rules can be complicated and there have been significant changes recently so do check the position before making any decisions.

The rules currently include a single lifetime limit on the amount of pension saving that can benefit from tax relief. From 6 April 2014 this limit is set as £1.25 million as well as an annual limit of £40,000 on the maximum level of pension contributions. The annual limit includes employer pension contributions as well as contributions by the individual. Any contributions in excess of the annual limit are taxable on the individual.

Tax relief is available on pension contributions at the taxpayer's marginal rate of tax. Therefore a higher rate taxpayer can pay £100 into a pension scheme at a cost of only £60. An additional rate taxpayer can pay £100 in at a cost of only £55. Indeed for some individuals, due to the complexity of the tax system, the effective relief may actually exceed 45%.

As it is widely acknowledged that governments generally are unable to provide adequate levels of retirement pensions, it is more important than ever to provide for a secure old age.

All individuals, including children, can obtain tax relief on personal pension contributions of

£3,600 (gross) annually without any reference to earnings. Higher amounts may be paid based on net relevant earnings. There is no facility to carry contributions back to the previous tax year.

Directors of family companies should, as an alternative, consider the advantages of setting up a company pension scheme or arrange for the company to make employer pension contributions. If a spouse is employed by the company consider including them in the scheme or arranging for the company to make reasonable contributions on their behalf.

Those with significant pension savings (in excess of £1.25 million) may be able to protect an increased pensions entitlement by utilising individual protection (IP14) which provides an individual who has pension savings of between £1.25 million and £1.5 million as at 5 April 2014, with a personal lifetime allowance based upon the pension savings at that date. Individuals can make further pension contributions although when benefits are taken any pension savings above the individual's personal lifetime allowance will be subject to a charge. Those who have already opted for Fixed Protection, benefit

from a higher lifetime allowance but cannot make further pension contributions.

We would be happy to advise you on your pensions position.



## Investments - are yours tax efficient?

There are a wide range of investments available and we consider some of the main ones with special tax rules.

### WARNING

When choosing between investments always consider the differing levels of risk and your requirements for income and capital in both the long and short term. An investment strategy based purely on saving tax is not advisable.

### Individual Savings Accounts

Individual Savings Accounts (ISAs) provide an income tax and capital gains tax free form of investment. The maximum investment limits are set for each tax year, therefore to take advantage of the limits available for 2014/15 the investment(s) must be made by 5 April 2015. An individual aged 18 or over may invest in one cash and one stocks and shares ISA per tax year but limits apply.

From 1 July 2014 ISAs were reformed into a simpler product, the New Individual Savings Accounts (NISA) and all ISAs become NISAs. Savers are able to subscribe the full amount into a cash NISA if they choose to. They are also able to transfer amounts between stocks and shares NISAs and cash NISAs.

The total annual subscription limit for ISAs for 2014/15 was originally set at £11,880 of which up to £5,940 could be placed in a cash ISA. This limit applied to investments made between 6 April and 30 June 2014. From 1 July 2014 a NISA allows you to invest up to £15,000 (£15,240) in a tax year. Individuals who have already invested £11,880 can therefore top up to £15,000 by 5 April 2015.

### Other investments

National Savings and Investment bank (NS&I) products are taxed in a variety of ways. Some, such as National Savings Certificates, are tax free.

Single premium life assurance bonds and 'roll up' funds provide a useful means of deferring income into a subsequent period when it may be taxed at a lower rate.

Both the Enterprise Investment Scheme (EIS) and the Seed Enterprise Investment Scheme (SEIS) allow income tax relief on new equity investment (in qualifying unquoted trading companies). For EIS that is 30% relief on investments of up to £1 million and for SEIS

up to 50% relief on £100,000. CGT exemption is given on qualifying shares held for at least three years.

Capital gains realised on the sale of any chargeable asset (including quoted shares, holiday homes etc) can be deferred where gains are reinvested in EIS shares.

A capital gain may be relieved potentially saving up to 14% CGT where a qualifying investment is made in the SEIS.

A Venture Capital Trust (VCT) invests in the shares of unquoted trading companies. An investor in the shares of a VCT will be exempt from tax on dividends (although the tax credits are not repayable) and on any capital gains arising from disposal of shares in the VCT. Income tax relief at 30% is available on subscriptions for VCT shares up to £200,000 per tax year so long as the shares are held for at least five years.

Finally, review your borrowings. Full tax relief is given on funds borrowed for business purposes.