DRG
Donald Reid Group

Year-end Tax Planning 2015

2014/2015

Year-end tax planning

The tax year-end is rapidly approaching. Good timing and careful planning can help you reduce your tax bill.

Introduction

Forward thinking is essential to good tax planning so that you take advantage of the reliefs available and minimise your tax bill.

Personal Tax planning

Do speak to your professional advisor early, so that they can develop a personalised tax and financial planning strategy for you.
You should aim to:-

- Ensure that earnings and profit extraction are as tax-efficient as possible
- Use the available tax reliefs and tax breaks
- Save money on company car costs and other business matters
- Make the most of tax-efficient savings and investments
- Save for a comfortable retirement
- Minimise your inheritance tax bill and protect your family's wealth.

Corporate tax planning

For business owners, good planning and careful timing are critical, if you want to maximise the reliefs or minimise your tax bill on a transaction or investment – and to avoid falling foul of the system of penalties and interest levied by HM Revenue and Customs.

Timing can also determine when any reliefs impact on your tax position. We can advise you on how to manage cash flow and plan ahead, including accounting for large payments such as tax bills.

Get in touch early

The tax year-end is 5th April 2015. However don't wait until then to speak to your professional advisor. Getting in touch early allows your advisor to develop a tailored plan for your long-term tax planning strategy and to help manage your cash flow.

To talk to the team at DRG Chartered Accountants, please call 01628 76000.

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The new Isa – don't miss out

From 1 July 2014, Individual Savings Accounts (ISAs) have been greatly simplified and relaunched as New ISAs (NISAs). From that date all existing ISAs have become NISAs. The previously announced ISA limits were in force until 30 June 2014, from which time the NISA limits took effect. Adults are now able to invest in any combination of cash or shares up to a total of £15,000. Savers aged between 16 and 18 can hold a cash NISA with up to £15,000 but cannot open a stocks and shares NISA.

You have until 5 April 2015 to maximise your 2014/15 NISA investment.

In addition, Junior ISAs, for those aged under 18 who were not entitled to a Child Trust Fund account, allow investment of up to £4,000 in 2014/15. Withdrawals are not normally permitted until the child reaches the age of 18, at which point the Junior ISA will become a normal adult NISA.

It is worth shopping around online for the best deals, particularly with interest rates for many ISAs currently being relatively low.

Are you paying an effective 60% income tax rate?

If your income exceeds £100,000 you will already be paying tax at 40% – this begins when taxable income exceeds £31,865 – but your personal allowances are also clawed back by £1 for every £2 by which your adjusted net income exceeds £100,000. All in all, the 40% income tax plus the loss of £1 of allowances for every £2 of income equates to an effective 60% rate on up to £20,000 of your income!

If your income for 2014/15 is likely to fall within the £100,000-£120,000 band, talk to us about your options – you might, for example, delay income into the next tax year or increase your payments into a pension.

If you want to avoid the 60% 'hidden top rate' you will usually need to act before the end of the tax year on 5 April. There is only one 'net adjusted income' reducer which can be arranged after the end of the year – a Gift Aid carry-back. Subject to making a qualifying donation to charity and the associated claim no later than when you file your 2014/15 Tax Return, a donation which would otherwise fall into 2015/16 can be claimed for 2014/15.

Certain rules apply, so please talk to us first about your particular circumstances.

Retirement planning – save tax with pension contributions

Relying on the State Pension is wholly inadequate for a comfortable retirement, which means you need to start planning how to fund your life after work – and the sooner the better.

Many people aim to supplement their retirement income by realising the value of their homes and downsizing, or look to parallel investments such as gold, second homes or buy-to-let. However, it is important to take advantage of tax reliefs and (tax-deductible) employer

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contributions to build a fund for your retirement. Personal contributions to pension schemes attract tax relief worth up to 60%, making them an ideal tax-free investment regime.

For pension contributions to be applied against 2014/15 income they must be paid on or before 5 April 2015. Tax relief is available on annual contributions limited to the greater of £3,600 (gross) or the amount of the UK relevant earnings, but also subject to the annual allowance.

Up to 5 April 2014 the basic annual allowance was a straight £50,000 cap on pension savings, but that has been reduced to £40,000 for 2014/15 onwards. However, it is possible to adjust your annual allowance to reflect savings shortfalls in the previous three tax years, against the previous cap of £50,000.

Tax Year	Gross Pension Saving £	Cap £	Carry Forward to 2014/15
2011/12	30,000	50,000	20,000
2012/13	10,000	50,000	40,000
2013/14	20,000	50,000	30,000

Example of varying pension contributions

This is largely to reflect the simple fact that for many self-employed people, earnings and available cash vary from one year to another. For example, a client has a pattern of contributions (see table).

With the £40,000 cap for 2014/15, this client can make tax-efficient contributions of up to £130,000 gross (subject to having enough relevant earnings in 2014/15). Since April 2014 the overall tax-advantaged pension savings lifetime allowance is £1.25 million (previously £1.5 million).

Your scheme managers can provide pension forecasts to help you estimate whether you are saving enough and, if not, what additional savings you might have to make in order to generate the income you will need in retirement. When you consider your retirement income, don't forget to also assess your expenditure – many people underestimate the amount they will need to live comfortably when they stop working.

The rules surrounding pension contributions are complex, so make sure to talk to us for advice.

State Pension check-up

You can check when you will become entitled to the State Pension and get an estimate of your entitlement by visiting www.gov.uk/calculate-state-pension.

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Company car or business mileage

Although the company car is still often an important part of an employee's remuneration package – and a crucial business tool for employers – tax and national insurance costs could mean that the company car is not the most tax-efficient option for either employer or employee.

The car benefit and car fuel benefit (where fuel for private use is provided with the car), on which you pay income tax at up to 45% (or even 60%). is calculated at up to 35% of the list price (car) and the same percentage on a notional £21,700 (fuel). The maximum taxable percentage is set to rise to 37% in April 2015.

For some, an employer provided 'van' may be a viable alternative to a company car: the tax charge is £1,236 plus up to £232 for fuel for those paying tax at 40% (earning approximately £41,865 to £150,000 in 2014/15). The company car or van benefit is currently subject to a Class 1A NIC charge of 13.8%, payable by the employer.

It may well be worth conducting a complete review of your company car policy, as it could prove more beneficial to pay employees for business mileage in their own vehicles, at the statutory mileage rates, especially if your business mileage is high.

Don't miss out on capital allowances

While depreciation is generally not tax-deductible, capital allowances allow the costs of capital assets to be written off against taxable profits. In recent years the Government has been increasingly generous with the rates of capital allowances in an attempt to help businesses and encourage greener investment.

Following an announcement in the spring Budget, for a temporary period from 1 or 6 April 2014 to 31 December 2015, the majority of businesses are able to claim a 100% Annual Investment Allowance (AIA) – in effect, a year-one write off – on the first £500,000 of expenditure on most types of plant and machinery (but not cars, to which different rules apply). Note that where a chargeable period straddles the date of the change, the business will need to calculate its AIA limit for the chargeable period in two parts, so please seek our assistance.

'Greener' investment is encouraged through specific 100% allowances available for some investments, including energy-saving equipment and low CO_2 emissions (up to 95 g/km) cars. Otherwise the general rate of annual writing down allowance is 18% on the reducing balance, with an 8% allowance for certain categories, including cars with CO_2 emissions exceeding 130

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g/km, long life assets and certain specified integral features of buildings.

Typically, a purchase made just before the end of the current accounting year will mean the allowances will usually be available a year earlier than if the purchase was made just after the year end. In the same way, the disposal of an asset may trigger an earlier claim for relief or even an additional charge to tax.

Protect your estate from the tax man

More and more people now face an inheritance tax (IHT) charge on their estate, with the threshold frozen at £325,000 until 2018.

IHT is currently payable at 40% on the value of taxable assets exceeding £325,000, and in some cases the value of assets given away up to seven years before your death can be brought back into account. So if you own your own home and have some savings and other assets such as shares and securities, your estate could be liable. It is therefore essential to start planning early if you want to minimise your exposure to IHT. We can help you, but here are some of the key areas to consider…

Take advantage of reliefs of up to 100%

There are a number of IHT reliefs available, perhaps most importantly relief on business and agricultural property, which effectively takes most of such property outside the IHT net. As always, there are detailed conditions, including a two-year minimum holding period, but business and agricultural property will generally attract 100% or 50% relief.

IHT exempt transfers between spouses

Example **Alex and Zoe were married. Alex died in May 2008, leaving £50,000 to his more distant family but the bulk of his estate to Zoe. If Zoe dies in 2015/16 her estate will qualify for a nil-rate band of:-**	
Nil rate band on Alex's death	£312,000
Used on Alex's death	£50,000
Unused band	£262,000
Unused %	83.97%
Nil rate band at time of Zoe's death	£325,000
Entitlement	183.97%
Nil rate band for Zoe's estate	£597,902

Transfers of assets between two spouses or civil partners are generally exempt from IHT, regardless of whether they are made

during a person's lifetime or on their death. In addition, the nil-rate band may be transferable between spouses and civil partners. This means that if the bulk of one spouse's estate passes, on their death, to the survivor, the proportion of the nil-rate band unused on the first death goes to increase the total nil-rate band on the second death.

Other exempt transfers include:

- Small gifts (not exceeding £250 per tax year per person to any number of indviduals
- annual transfers not exceeding £3,000 (any unused amount may be carried forward to enhance the following year's exemption)
- certain gifts in consideration of marriage or civil partnership
- normal expenditure out of income
- gifts to charities.

Lifetime gifts

A programme of lifetime gifts can also significantly reduce the IHT liability on your estate. As long as you survive the gift by seven years and no longer continue to benefit from the gift yourself, it will escape IHT. Gifts also have the advantage of allowing you to witness your family members benefitting during your lifetime.

A discount can also apply where lifetime gifts were made between three and seven years before death (note that the discount applies to the tax on the gift rather than the gift itself, so, as above, these 'old' gifts can significantly increase the final bill unless we have been able to cover them for you with an exemption or relief).

Trusts

Trusts can be used to help maintain a degree of control over the assets being gifted, especially useful in the case of younger recipients. Life assurance policies can be written into trust in order that the proceeds will not form part of the estate on your death. Talk to us about using trusts to meet your planning needs.

Your Will

Your Will is your ultimate opportunity to get money matters right. You should review your Will at regular intervals to ensure that it reflects changes in your family and finances, is tax-efficient, and includes any specific legacies you would like to give, including tax-free donations to charity.

Good planning will ensure that more of your estate passes to the people you want to benefit, rather than the taxman. Contact us for more advice tailored to your particular circumstances.

Strategies for tax-efficient profit extraction

There are many ways to extract profit from your company, and each method has implications – not just for tax, but also for your business as a whole. We can help you decide on the best way for yourself and your company. Some of the key strategies are outlined below – contact us for help with your particular circumstances.

Corporation tax is the tax due on a company's profits, while personal

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income tax generally applies to what is drawn out of the company by means of a salary, bonus or other form of remuneration.

Dividend versus salary/ bonus
The question of whether it is better to take a salary/bonus or a dividend requires careful consideration. A dividend is paid free of NICs, whilst a salary or bonus can carry up to 25.8% in combined employer and employee contributions. However, a salary or bonus is generally tax deductible to the company, whereas dividends are not. 5 April 2015 is the last date for paying a 2014/15 dividend, and any higher or additional rate tax on that dividend will not be due until 31 January 2016.

Defer income
The top income tax rate is 45% and the equivalent dividend tax rate is now 37.5%, so thought needs to be given to the timing of bonuses and/or dividends if taxable income is likely to exceed £150,000, especially if income in 2015/16 will be less.

More ways to extract profit
You may also want to consider alternative means of extracting profit, which might include the following:

- Capitalisation
For those expecting to liquidate their company in the next few years, profits might be left in the company to be eventually drawn as capital.

Current rules allow retained profits distributed on liquidation to be subject to capital gains tax, with a potential tax rate as low as 10% if Entrepreneurs' Relief is available. However, caution is advised as high cash reserves held without a clear business purpose or substantial investments can potentially jeopardise Entrepreneurs' Relief or IHT Business Property Relief.

- **Incorporation**
As the above points suggest, incorporation may give more scope for saving or deferring tax than operating as a self-employed person or partner.

Of course, incorporation may not suit all circumstances, and the 'IR35' rules specifically counter the use of 'personal service companies' to reduce tax, but we will be pleased to discuss how incorporation might apply to you and your business.

- Tax-free allowances
Tax-free allowances, such as mileage payments, apply when you drive your own car or van on business journeys. The statutory rates are 45p per mile for the first 10,000 miles and 25p per mile above this. If you use your motorbike the rate is 24p per mile, and you can even claim 20p per mile for using your bicycle!

- Childcare
Parents of young children may be entitled to tax and NIC-free childcare vouchers of up to £55 per week, provided by their employer. Where both parents are employees, of the

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same or different employers, the exemption is effectively doubled. The costs are usually deductible to the employer.

Maximum vouchers per parent: For people who joined the scheme before 6 April 2011, the limit is £55 per week. For those joining now, or who joined on or after 6 April 2011, the limit is:

- if your top tax rate is 20% – £55 per week
- if your top tax rate is 40% – £28 per week
- if your top tax rate is 45% – £25 per week.

(These figures may be subject to important changes in autumn 2015.)

By using the available allowances and exemptions your family could maximise tax-free income and gains – please contact us for advice.

- Pensions

Employer pension contributions can be a tax-efficient means of extracting profit from a company, as long as the overall remuneration package remains commercially justifiable. The costs are usually deductible to the employer and free of tax and NICs for the employee.

- Property

Where property which is owned by you is used by the company for business purposes, such as an office building or car park, you are entitled to receive rent, which can be anything up to the market value, if you wish.

The rent is usually deductible for the employer. You must declare this on your Tax Return and pay income tax, but a range of costs connected with the property can be offset. On the other hand, receiving rent may mean a bigger capital gains tax bill if or when you decide to sell the property, so care needs to be taken to weigh up the pros and cons.

For further information

If you would like to discuss your year-end tax planning, please do get in touch.

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