# Tax and Financial Strategies 2017/18

DRG
Donald Reid Group

Recent months have seen significant changes to the UK's economic and political landscape. With further landmark changes in the pipeline, it is more important than ever to plan ahead and ensure that you are making the most of your business and your personal finances.

This guide is designed to help make you aware of the main tax allowances and incentives, so that you might incorporate them into your overall financial strategy. However, the UK tax system is complex, and every individual and every business situation is different.

We therefore recommend that you view this guide as just a starting point, and to contact us for specific advice. Remember also that minimising your tax liability should form just one part of your financial planning or business development strategy, and it should not be viewed as an end in itself to the detriment of your wider goals.

As your advisers, we can help you to meet those goals, with expert one-to-one advice tailored to your individual circumstances.

To discuss the issues raised in this guide and how it might affect you and your business, please do get in touch – we would be delighted to hear from you.

**David Gordon-Smith,** Tax Partner

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# Introduction

In times of ongoing uncertainty, proper forward planning remains the best way of ensuring that you are on course to achieve your business and financial goals.

**Your business planning strategy**

A sound business tax strategy will include such things as:

- Making the most of the available incentives, allowances and reliefs
- Choosing the most appropriate structure for your business
- Claiming tax deductible expenses
- Deciding on the best year end date
- Minimising your liability to capital gains tax (CGT)
- Optimising the roles of family members
- A tax-efficient business exit strategy.

**Your personal financial strategy**

A good personal tax strategy will focus on helping to ensure that you, your family and your dependents are financially secure in the long term. It will typically include such elements as:

- A tax-efficient remuneration package
- Tax-efficient ways to extract profit from your business
- Tax-efficient saving and investment strategies
- Tax-efficient property investment strategies
- Retirement planning strategies
- Estate and inheritance tax (IHT) planning
- Tax-efficient gifting strategies.

**Please note:**

The general effect of the Civil Partnership Act is to treat registered civil partners on a consistent basis with married couples. For the purposes of this guide we have on occasions referred only to spouses.

'HMRC' refers to HM Revenue & Customs.

This guide is based on current understanding of legislation and the government's proposals at the time of publication and under no circumstances should action be taken without first seeking appropriate

## Tax and business measures

The start of the new tax year saw the introduction of a number of significant changes affecting businesses and individuals, some of which are discussed in more detail later in this guide.

**The Lifetime ISA**

The new Lifetime ISA is now available to any adult under the age of 40. Individuals may deposit up to £4,000 per tax year and receive a 25% bonus from the government on any savings put into the account before their 50th birthday. The tax-free savings and the government bonus can be put towards a deposit for a first home in the UK worth up to £450,000, or to save towards an individual's retirement.

**New rules on inheritance tax (IHT)**

The new 'residence nil-rate band' (RNRB) now enables a 'family home' to be passed wholly or partially tax-free on death to direct descendants. The amount of relief will be phased in over four years and will initially be £100,000 in 2017/18, rising each year thereafter to reach £175,000 in 2020/21. The RNRB is in addition to an individual's own nil-rate band and any unused nil-rate band may be transferred to a surviving spouse or civil partner.

**Property tax relief**

The government has introduced a series of changes to property tax relief. Historically, buy-to-let landlords have been granted relief on interest payments against rental income. However, tax relief for landlords is being reduced in a series of stages from April 2017. The relief for finance costs on residential properties is being reduced to the basic rate of income tax, over a period of four years. For 2017/18 the deduction from property income will be restricted to 75% of finance costs, with the remaining 25% available as a basic rate tax reduction and may be capped in certain situations.

**Further income tax changes**

For 2017/18 the personal allowance has increased to £11,500 and the basic rate limit to £33,500 as planned. However, the Scottish government has exercised its new income tax-setting powers and the basic rate band for income (excluding savings income and dividends) for Scottish resident taxpayers has been set at £31,500.

There have been significant changes to the taxation of dividend income together with the introduction of allowances for savings and dividend income. These changes were introduced from 2016/17, and it is important to make sure you are making the best use of the allowances available.

# Business tax strategies

## Starting a new venture

Starting a business presents its fair share of opportunities and challenges, and also carries a degree of risk. During the start-up phase you will need to make all kinds of decisions that could be critical to the long-term success of the enterprise. You'll need to consider such things as: the type of business and its attributes; your target market and competition; profit potential and how you will extract those profits; the rate of business growth; and the impact of running the business on your personal life. At some point, you'll also need to consider how you will exit the business when the time comes, and realise its value. We can provide expert, tailored advice and help you avoid the common mistakes.

### Writing your business plan

One of the first things you need to consider is your business plan. This is not only for the benefit of potential investors, but to help you stay on the right course in the short, medium and long-term. It should include: the business structure that best meets your needs (such as: sole trader, partnership, limited liability partnership or limited company); your intended funding sources; tax-efficient borrowings; whether a PAYE scheme is necessary; and whether the business should be VAT registered.

We can guide you through these important decisions, and help you to complete the appropriate registrations. We can assist with cash flow forecasts, helping you to spot potential cash shortfalls, and provide regular updates so you can monitor your business's performance.

### Choosing the right business structure

Deciding on the most appropriate structure for your business is not always straightforward. Sole traders, partnerships, limited companies and limited liability partnerships all have their own pros and cons, with different implications for control, perception, support and costs. For example, careful consideration is needed regarding whether or not to retain personal ownership of any freehold property on incorporation. We can help you to decide on the best structure for your business.

### Deciding on your year-end

It is also important to choose a year-end that suits your business. Is there a time of year when it will be more convenient to close off your accounting records? What time of year would be best for your stock-take? Is your trading seasonal? From a tax perspective, choosing a year-end early in the tax year for an unincorporated business usually means that an increase in profits is more slowly reflected in an increased tax bill, and over time the delay between earning profits and paying the tax can create a source of working capital for the business. On the other hand, a decrease in profits will more slowly result in a lower tax bill.

### Registering with HMRC

When you start a business, it is important to inform HMRC of your new self-employed status as soon as possible. If and when you take on employees, you need to register for and set up a PAYE scheme and accept all the responsibilities and obligations that go with it, including compliance with Real Time Information reporting (and remember for this purpose you will most likely be an employee of your limited company, if you incorporate). You will also have to comply with the pensions auto-enrolment obligations, although exemptions apply to director-only companies so do get in touch for advice in this area.

Please talk to us as soon as you envisage having employees so we can help you set up a PAYE scheme and comply with your payroll obligations, or take on the task on your behalf.

| Starting a Business – Action Plan | √ |
|---|---|
| Prepare a robust business plan | |
| Ensure that you have access to suitable funding | |
| Check your right to use your chosen trading name | |
| Choose the right business structure | |
| Register with HMRC | |
| Register for VAT | |
| Register your business name | |
| Trade and professional registrations | |
| Choose your year end | |
| Plan to reduce your tax liability | |
| Develop your branding | |
| Involve the family | |
| Plan to avoid fines and penalties | |

## Claiming deductible expenses

As your accountants and tax advisers, our job is to help ensure that you benefit from all of the allowances and reliefs available to you. You will pay tax on your taxable profits, so a crucial element of tax planning is to claim all deductible expenses, many of which will be included in your accounting records.

If you are self-employed and carry on your business from home you can claim tax relief on part of your household expenses, including insurance, repairs and utilities. You may also be able to claim for the cost of travel and accommodation when you are working away from your main place of business, so you should keep adequate business records, such as a log of business journeys. In addition to ensuring that your accounts are accurate, these records may also be requested by HMRC. The use of an appropriate computer package might be worth considering, in order to maintain concise and effective record-keeping.

You may also wish to consider the voluntary cash basis for calculating taxable income for small businesses, which allows eligible self-employed individuals and partnerships to calculate their profits on the basis of the cash that passes through their business. Businesses are eligible if they have annual receipts of up to £150,000 and they will be able to continue to use the cash basis until receipts reach £300,000. This is something we should discuss with you in detail if you are eligible. Allowable payments include most purchases of plant and machinery, when paid, rather than claiming capital allowances.

Unincorporated businesses are able to choose to deduct certain expenses on a flat rate basis. However, this is worth discussing before opting for it, as the flat rates are not generous.



## Claiming capital allowances

'Capital allowances' is the term used to describe the deduction we are able to claim on your behalf for expenditure on business equipment, in lieu of depreciation.

**Annual Investment Allowance (AIA)**

The maximum annual amount of the AIA is £200,000. This means up to £200,000 of the year's investment in plant and machinery, except for cars, is allowed at 100%. The AIA applies to businesses of any size and most business structures, but there are provisions to prevent multiple claims. Businesses are able to allocate their AIA in any way they wish; so it is quite acceptable for them to set their allowance against expenditure qualifying for a lower rate of allowances (such as integral features) – see more on this below.

**Enhanced Capital Allowances (ECAs)**

In addition to the AIA, a 100% first year allowance is also available on new energy saving or environmentally friendly equipment. Where companies (only) have losses arising from ECAs, they may choose how much they wish to carry forward and how much they wish to surrender for a cash payment (tax credit is payable at 19% but subject to limits).

A separate ECA scheme is available for new electric and low carbon dioxide (CO2) emission (up to 75g/km) cars, new zero emissions goods vehicles (up to 31 March 2018 (corporates) or 5 April 2018 (others)). They still qualify for the 100% first year allowance, but do not qualify for the payable ECA regime.

**Writing Down Allowance (WDA)**

Any expenditure not covered by the AIA (or ECAs) enters either the main rate pool or the special rate pool, attracting WDA at the appropriate rate – 18% and 8% respectively. The special rate 8% pool applies to higher emission cars, long-life assets and integral features of buildings, specifically:

- Electrical systems (including lighting systems)
- Cold water systems
- Space or water heating systems, powered systems of ventilation, air cooling or purification and any floor or ceiling comprised in such systems
- Lifts, escalators and moving walkways
- External solar shading.

For most other plant and equipment, including some cars (see below), the main rate applies.

A WDA of up to £1,000 may be claimed by businesses, where the unrelieved expenditure in the main pool or the special rate pool is £1,000 or less.

**Enterprise Zones**

The Enterprise Zones in assisted areas qualify for enhanced capital allowances. In these areas, 100% First Year Allowances will be available for expenditure incurred by trading companies on qualifying plant or machinery.

**Cars**

Currently for cars purchased with CO2 emissions exceeding 75g/km, the main rate of 18% applies. However, cars with CO2 emissions above 130g/km will be restricted to the special rate of 8%. For non-corporates, cars with a non-business use element continue to be dealt with in single asset pools, so the correct private use adjustments can be made but the rate of WDA will be determined by the car's CO2 emissions. Remember, cars do not qualify for the AIA.

**Buildings**

When a building is purchased for business use, it may be possible to claim capital allowances on plant elements contained therein, e.g. air conditioning, subject to certain conditions. A joint election may need to be made with the vendor. Please contact us for further details and advice prior to any purchase.



## Research and Development (R&D) investment

Tax relief is available on R&D revenue expenditure incurred by companies at varying rates. The current rates of relief are as follows:

- For small and medium-sized companies paying corporation tax at 19%, the effective rate of tax relief is 43.7% (that is a tax deduction of 230% on the expenditure). For small and medium-sized companies not yet in profit, the relief can be converted into a tax credit payment effectively worth 33.35% of the expenditure
- An 11% 'above the line' credit exists for large company R&D expenditure. This is known as the R&D Expenditure Credit (RDEC) scheme. The credit is fully payable, net of tax, to companies with no corporation tax liability.
- SMEs barred from claiming SME R&D tax credit by virtue of receiving some other form of state aid (usually a grant) for the same project may be able to claim under the large company RDEC scheme. An SME may also be entitled to the large company RDEC for certain work that has been subcontracted to it.

## Involving family members in the business

As long as it can be justified commercially, you can employ family members in your business. They can be remunerated with a salary, and possibly also with benefits such as a company car or medical insurance. You can also make payments into a registered pension scheme.

Family members may also be taken into partnership, thereby gaining more flexibility in profit allocation. Taking your non-minor children into partnership and gradually reducing your own involvement as their contribution increases can be a very tax-efficient way of passing on the family business. Of course, you should be aware that this could put your whole family wealth at risk, if the business were to fail.

It is worth noting that HMRC may challenge excessive remuneration packages or profit shares for family members, so please do seek our advice first. In most cases, if you operate your business through a trading limited company, under current tax law you can pass shares on to other family members and thus gradually transfer the business with no immediate tax liability.

However, a tax saving for the donor usually impacts on the donee, and you need to steer clear of the 'settlements legislation', so again, please do contact us for advice before taking any action.

## Unincorporated businesses

Business profits are charged to income tax and Class 4 national insurance contributions (NICs) on the current year basis. This means that the profits 'taxed' for each tax year (ending 5 April) are those earned in the accounting period ending in the tax year.

For example, in the case of a sole trader who draws up his accounts to 31 July each year, his profits for the year ended 31 July 2017 will normally be taxed in 2017/18.

There are special rules for the early and final years of a business, and for partnership joiners and leavers.

Numerous 'fines' are being administered for those who fail to comply with the rules and regulations set by government departments. We have already mentioned income tax but other possible 'traps' to avoid are:

- Late VAT registration and late filing penalties
- Late payment penalties and interest
- Penalties for errors in returns
- Penalties for late PAYE returns
- Penalties for failing to operate a PAYE or sub-contractors scheme
- Penalties for failing to comply with pensions auto-enrolment regulations.

In order to help you to steer clear of these pitfalls, we must receive all of the details for your accounts and Tax Returns in good time, and be kept informed of any changes in your business, financial and personal circumstances.



## Employment versus self-employment

There is no statutory definition of 'employment' or 'self-employment', so determining whether someone is employed or self-employed is not straightforward.

Instead, HMRC applies a series of 'tests' in order to ascertain whether someone is classified correctly. As large amounts of both tax and NICs can be at stake, HMRC often takes quite an aggressive line with regard to this issue, and errors can be costly, so seeking advice that is tailored to your situation is essential. Please contact us for assistance in this matter.

Under the 'IR35' rules, companies and partnerships providing the personal services of the 'owners' of the business must consider each and every contract they enter into for the provision of personal services. The test is whether or not the contract is one which, had it been between the owner or partner and the customer, would have required the customer to treat the owner or partner as an employee and therefore be subject to PAYE.

The contract 'passes' if the owner/partner would have been classified as self-employed; it fails if the owner/partner would have been classified as an employee. If the contract 'fails', the business is required to account for PAYE and NICs on the 'deemed' employment income from the contract at the end of the tax year. This is done using specific rules. We can advise you about these, so please contact us for further information.

The position for individuals working through their own company in the public sector changed from April 2017. The public sector employer, agency, or third party that pays the worker's intermediary now has to decide if the IR35 rules apply to a contract, and if so, account for and pay the relevant tax and NICs.

**Whose risk?**

If the question is whether an individual is an employee or self-employed, the risk lies with the 'engager' or payer – with a potential liability for the PAYE which should have been paid over without right of recourse to the 'employee'. If the question is whether or not IR35 applies, the question (and any liability due) is for the individual and his/her company (the payee).

**Debtors and unbilled work**

As explained above, small businesses may opt into the cash basis and calculate their profits on the basis of the cash passing through the business. However, it is a feature of the tax system that other businesses (including all corporates) must include in their turnover for the year the value of incomplete work, of unpaid bills (debtors) and of work completed but not yet billed, all as at the end of the year.

We will need to discuss with you exactly what needs to be identified and the basis of valuation. Keeping an eye on debtors and unbilled work is very important to your cash flow.

## Limited companies

Forming a limited company may be a consideration if the limitation of liability is important, but it should be noted that banks and other creditors often require personal guarantees from directors for company borrowings.

Trading through a limited company can be an effective way of sheltering profits. Profits paid out in the form of salaries, bonuses, or dividends may be liable to top tax rates, whereas profits retained in the company will be taxed at 19%.

Funds retained by the company can be used to buy equipment or to provide for pensions – both of which can be eligible for tax relief. They could be used to fund dividends when profits are scarce (spreading income into years when you might be liable to a lower rate of income tax) or capitalised and potentially taxed at 10% and/or 20% on a liquidation or sale.



## National insurance contributions (NICs)

Leaving profits in the company may be tax-efficient, but you will of course need money to live on, so you should consider the best ways to extract profits from your business.

A salary will meet most of your needs, but you should not overlook the use of benefits, which could save income tax and could also result in a lower NIC liability.

Five key NIC-saving strategies:

1. Increasing the amount the employer contributes to company pension schemes. Care should be taken however as there are limits on the amount of pension contributions an individual can make both annually and over their lifetime

2. Share incentive plans (shares bought out of pre-tax and pre-NIC income)

3. For some companies, disincorporation and instead operating as a sole trader or partnership may be beneficial

4. Instead of an increased salary, paying a bonus to reduce employee (not director) contributions

5. Paying dividends instead of bonuses to owner-directors.

## Increasing your net income as an owner-director

As an example, consider how much you might save if, as an owner-director, you wanted to extract £10,000 profit (pre-tax) your company makes in 2017/18 by way of a dividend rather than a bonus. We have assumed in this scenario that the director has already taken salary in excess of the upper earnings limit for NIC, is a 40% taxpayer, and the £5,000 dividend tax allowance has already been utilised.

**Example**

As you can see in this example, the net income is increased by 7% by opting to declare a dividend. Be sure to discuss this with us, as this is a complex area of tax law.

| | Bonus<br>£ | Dividend<br>£ |
|---|---|---|
| Profit to extract | 10,000 | 10,000 |
| Employers' NICs (13.8% on gross bonus) | -1,213 | |
| Gross bonus | 8,787 | |
| Corporation tax<br>(19% - dividend is not deductible for corporation tax) | | -1,900 |
| Dividend | | 8,100 |
| Employees' NICs (2% on gross bonus) | -176 | |
| Income tax (40% on gross bonus) | -3,515 | |
| Income tax on dividend | | -2,633 |
| Net amount extracted | 5,096 | 5,467 |

Remember that dividends are usually payable to all shareholders and are not earnings for pension contributions and certain other purposes. It is possible to waive dividends, although this can result in tax complications. Finally, you need to consider with us the effect of regular dividend payments on the valuation of shares in your company.

## Preparing for the year end

Tax and financial planning should be undertaken before the end of your business year, rather than left until the end of the tax or financial year. Some of the issues to consider include:

- The impact that accelerating expenditure into the current financial year, or deferring it into the next, might have on your tax position and financial results
- Making additional pension contributions or reviewing your pension arrangements
- How you might take profits from your business at the smallest tax cost, and how the timing of payment of dividends and bonuses can reduce or defer tax
- Improvements to your billing systems and record keeping system, or a general review of your current systems to improve profitability and cash flow
- National insurance efficiency and employee remuneration.

## Avoiding late filing penalties

It is important to keep your tax affairs in order so that you avoid incurring any Tax Return late filing penalties.

| Current penalties | |
|---|---|
| Return one day late | £100 |
| Return 3 months late | An additional £10 for each following day up to 90 days |
| Return 6 months late | Add £300 or 5% of the tax due, if greater |
| Return one year late | Add £300 or 5% of the tax due*, if greater |
| ** In more serious cases, this penalty may be increased to 100% of the tax due.* | |



The timetable for making tax payments is relatively straightforward for the self-employed:

- 31 January in the tax year, first payment on account
- 31 July after the tax year, second payment on account
- 31 January after the tax year, balancing payment.

Again, a system of interest and penalties applies. For example, if any balance of tax due for 2016/17 is not paid within 30 days after 31 January 2018, HMRC will add a 5% late payment penalty as well as the interest that will be charged from 1 February 2018.

A further 5% penalty will be added to any 2016/17 tax unpaid after 31 July 2018, with a final 5% penalty added to any 2016/17 tax still unpaid after 31 January 2019. Interest is also charged on outstanding penalties, as well as on unpaid tax and NICs.

If your business is incorporated, it will be liable to corporation tax. Corporation tax is usually payable nine months and one day after the end of the company's accounting period.

If there are cash flow issues, HMRC might be persuaded to accept a spreading of your next business tax payment – you will have to pay interest at the HMRC rate, but keep to the agreed schedule and late payment penalties will be waived. Arrangements need to be put in place before the due date for paying the tax, so talk to us in good time if you wish to apply.

## Payments on account

Payments on account are normally equal to 50% of the previous year's net liability. A claim can be made to reduce your payments on account, if appropriate, although interest will be charged if your actual liability is more than the reduced amount paid on account.

There is no equivalent mechanism to make increased payments on account when the year's tax will be higher, so you should ensure that you build a reserve of money to pay the balance of tax due.

**Don't wait until it's too late if you are experiencing difficulties! Please tell us in good time about any issues facing your business, as we may be able to offer solutions.**

Payments on account are not due where the relevant amount is less than £1,000 or if more than 80% of the total tax liability is met by income tax deducted at source. In these cases, the balance of tax due for the year, including capital gains tax, is payable on the 31 January following the end of the tax year.

### Example

Simon is self-employed. His accounts are made up to 31 August each year. When we prepare the 2017 Return we will be including his profit for the year ended 31 August 2016, and that is the profit which will be taxed for 2016/17.

Simon's payments on account for 2017/18 will automatically be based on the 2016/17 liability.

Providing we know that Simon's profits for the year to 31 August 2017 are significantly less than the previous year, we can examine the figures, perhaps even prepare the annual accounts and, taking into account any other sources of taxable income, make a claim to reduce Simon's 2017/18 payments on account. This will ease his cash flow by reducing the tax payments due in January and July 2018.

### Contact us to discuss...

- Starting up a new business
- Raising finance for your venture
- Timing capital and revenue expenditure to maximum tax advantage
- Minimising employer and employee NIC costs
- Improving profitability and developing a plan for tax-efficient profit extraction

# Tax and employment

In this section we look at some of the key tax issues facing employers and employees.

## Using the right PAYE code

The purpose of the PAYE system is to collect the right amount of tax from your earnings throughout the course of the year. Your tax code – or sometimes a series of tax codes – is used by your employer to work out how much tax to deduct from your earnings.

However, many people can go for years paying the wrong amount of tax – either too much or, perhaps more worryingly, too little – because they have an incorrect tax code. In particular, they may not have notified the tax office of changes in their circumstances that would affect their tax position, such as a change in jobs or acquiring or losing the benefit of a company car, or they may have started or stopped investing in a personal pension plan.

It is important that we check your PAYE code now, because it is much easier to rectify mistakes before the tax year ends. As a first step, though, you can look at your salary slip to see which code is currently being applied.

The letter in the code tells us whether your code includes one of the standard allowances, and you can see if this is right for your circumstances:

**L** – includes the basic personal allowance

**N** – taxpayers who are 'transferors' of the Marriage Allowance

**M** – taxpayers who are 'recipients' of the Marriage Allowance

**T** – there is usually an adjustment in your code which requires manual checking by HMRC each year – for example, you might have a tax underpayment being 'coded out'

**K** – HMRC may try to increase the tax you pay on one source of income to cover the tax due on another source which cannot be taxed directly – for example, the tax due on your taxable employment benefits might be collected by increasing the amount of tax you would otherwise pay on your company salary. A 'K' code applies when the 'other income' adjustment reduces your allowances to less than zero – in effect, it means that the payer has to add notional income to your real income for PAYE purposes.

The maximum tax which can be deducted is 50% of the source income.

HMRC will often try to collect tax on other income through your PAYE code but you may prefer to pay the tax through self-assessment – contact us, as we can arrange for the adjustment to be removed.

If you are resident in Scotland you will pay Scottish income tax. In such cases your code will start with an S to tell your employer to deduct tax using the Scottish income tax bands on your pay.

## Employer loans

Where loans from an employer total more than £10,000 at any point during the tax year, tax is chargeable on the difference between any interest actually paid and interest calculated at the official rate (2.5% from 6 April 2017).

## Expense payments

From 6 April 2016 expense payments are generally exempt and no longer need to be reported to HMRC on a form P11D. However, expense payments will still be subject to review from time to time, including during an employer compliance visit from HMRC.

You may be able to claim tax relief for other expenses you incur in connection with your job, but the rules are fairly restrictive.

Most benefits are fully taxable, but some attract specific tax breaks.

Combining qualifying benefits with a properly arranged salary sacrifice can mean considerable savings for both employer and employee. If you get the package right, it can be very beneficial – especially for those with income of more than £100,000 who will lose their personal allowances. If you fall into this marginal category, please talk to us to find out how we can help.

**An attractive remuneration package might include any of the following:**

- Salary
- Bonus schemes and performance-related pay
- Reimbursement of expenses
- Pension provision
- Life assurance and/or healthcare
- A mobile phone
- Salary sacrifice options
- Share incentive arrangements
- Trivial benefits in kind (worth no more than £50 each)
- Choice of a company car
- Additional salary and reimbursement of car expenses for business travel in your own car
- Contributions to the additional costs of working at home
- Other benefits including, for example, an annual function costing not more than £150 (including VAT) per head, or long service awards.



## Pension scheme contributions

Employer contributions to a registered employer pension scheme or your own personal pension policies are not liable for tax or NICs.

Please be aware that while your employer can contribute to your personal pension scheme, these contributions are combined with your own for the purpose of measuring your total pension input against the ‘annual allowance’. Further information is provided in this guide.

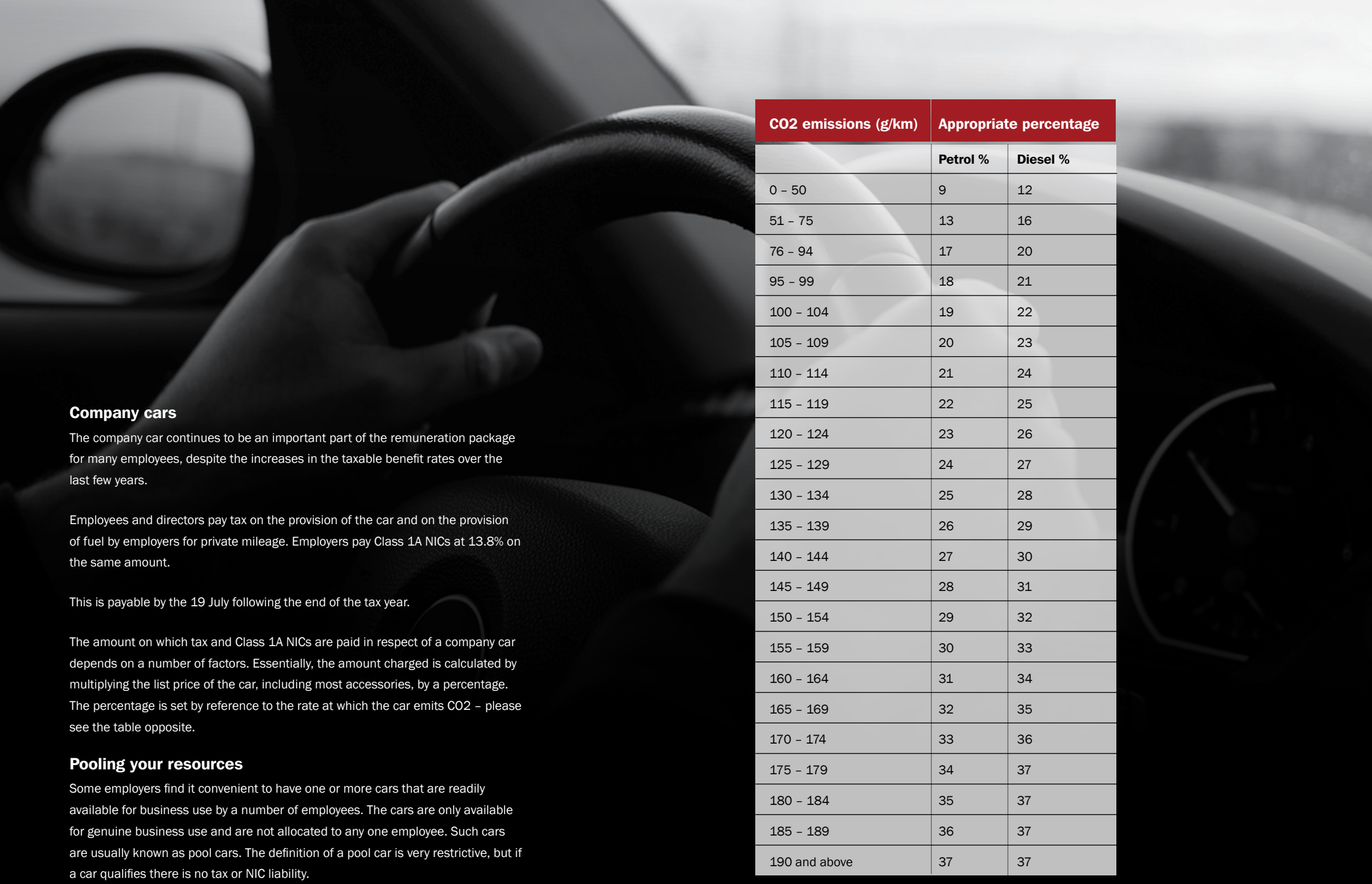
## Deductions for travel and subsistence

Site-based employees may be able to claim a deduction for travel to and from the site at which they are working, plus subsistence costs when they stay at or near the site.

Employees working away from their normal place of work can claim a deduction for the cost of travel to and from their temporary place of work, subject to a maximum period.

**Approved business mileage allowances – own vehicle**

| Vehicle | First 10,000 miles | Thereafter |
|---|---|---|
| Car/van | 45p | 25p |
| Motorcycle | 24p | 24p |
| Bicycle | 20p | 20p |



## Company cars

The company car continues to be an important part of the remuneration package for many employees, despite the increases in the taxable benefit rates over the last few years.

Employees and directors pay tax on the provision of the car and on the provision of fuel by employers for private mileage. Employers pay Class 1A NICs at 13.8% on the same amount.

This is payable by the 19 July following the end of the tax year.

The amount on which tax and Class 1A NICs are paid in respect of a company car depends on a number of factors. Essentially, the amount charged is calculated by multiplying the list price of the car, including most accessories, by a percentage. The percentage is set by reference to the rate at which the car emits CO2 – please see the table opposite.

## Pooling your resources

Some employers find it convenient to have one or more cars that are readily available for business use by a number of employees. The cars are only available for genuine business use and are not allocated to any one employee. Such cars are usually known as pool cars. The definition of a pool car is very restrictive, but if a car qualifies there is no tax or NIC liability.

| CO2 emissions (g/km) | Appropriate percentage | |
|---|---|---|
| | Petrol % | Diesel % |
| 0 – 50 | 9 | 12 |
| 51 – 75 | 13 | 16 |
| 76 – 94 | 17 | 20 |
| 95 – 99 | 18 | 21 |
| 100 – 104 | 19 | 22 |
| 105 – 109 | 20 | 23 |
| 110 – 114 | 21 | 24 |
| 115 – 119 | 22 | 25 |
| 120 – 124 | 23 | 26 |
| 125 – 129 | 24 | 27 |
| 130 – 134 | 25 | 28 |
| 135 – 139 | 26 | 29 |
| 140 – 144 | 27 | 30 |
| 145 – 149 | 28 | 31 |
| 150 – 154 | 29 | 32 |
| 155 – 159 | 30 | 33 |
| 160 – 164 | 31 | 34 |
| 165 – 169 | 32 | 35 |
| 170 – 174 | 33 | 36 |
| 175 – 179 | 34 | 37 |
| 180 – 184 | 35 | 37 |
| 185 – 189 | 36 | 37 |
| 190 and above | 37 | 37 |

## Car – fuel only advisory rates

| Engine capacity | Petrol | Diesel | Gas |
|---|---|---|---|
| Up to 1400cc | 11p | 9p | 7p |
| 1401cc - 1600cc | 14p | 9p | 9p |
| 1601cc to 2000cc | 14p | 11p | 9p |
| Over 2000cc | 21p | 13p | 14p |

Rates from 1 June 2017 and are subject to change. Note the advisory fuel rates are revised in March, June, September and December. Please contact us for any updated rates.

## Example

Sarah is an owner-director. For her company car she had chosen one with a list price of £25,785. The car runs on petrol and emits CO2 at a rate of 148g/km.

Sarah's company is successful and she pays tax at 45%. Her 2017/18 tax bill on the car is therefore £3,249 (£25,785 x 28% x 45%). Sarah's company will pay Class 1A NICs of £996 (£25,785 x 28% x 13.8%).

The company also pays for all of Sarah's petrol. Because she does not reimburse the cost of fuel for private journeys, she will pay tax of £2,848 (£22,600 x 28% x 45%) and the company will pay Class 1A NICs of £873 (£22,600 x 28% x 13.8%).

The total tax and NIC cost is £7,966. Furthermore, as well as paying for the fuel, the company will also need to pay a gross amount of over £11,503 to provide Sarah with the funds to pay the tax.

When employers' national insurance is taken into account, the gross cost before tax relief of funding Sarah's tax and the NIC liabilities will be over £14,959.

## Mileage allowance or free fuel?

A frequently asked question is: would I be better off giving up the company car and instead claiming mileage allowance for the business travel I do in a car that I buy myself? The rule of thumb answer to this is that you are more likely to be better off if your annual business mileage is high.

Another frequent question is: would I be better off having my employer provide me with fuel for private journeys, free of charge, and paying tax on the benefit, or bearing the cost myself? In this case, the rule of thumb answer is that you are only likely to be better off taking the free fuel if your annual private mileage is high. However the cost to the employer of providing this benefit is likely to be high.

Every case should be judged on its own merits, and considered from both the employee's and the employer's point of view. While cost is an important factor, it is not the only one. As an employee, using a company car removes the need to worry about bills or the cost of replacement. As an employer, running company cars allows you to retain control over what may, for your business, be key operating assets.

## Private mileage

If your employer provides fuel for any private travel, there is a taxable benefit, calculated by applying the same percentage used to calculate the car benefit to the fuel benefit charge multiplier of £22,600.

You can avoid the car fuel charge either by paying for all fuel yourself and claiming the cost of fuel for business journeys at HMRC's fuel only advisory rates, or by reimbursing your employer for fuel used privately using the same rates.

## What about a company van?

Many employers and employees have benefitted from significant savings by replacing company cars with employee-owned cars part-funded by mileage allowances at HMRC rates. Where a company vehicle is still appropriate, a van rather than a car is worth considering.

Unrestricted use of a company van results in a taxable benefit of £3,230, with a further £610 benefit if free fuel is also provided. Limiting the employee's private use to only home to work travel could reduce both figures to zero.

## Childcare schemes

The government is rolling out the new Tax-Free Childcare scheme during 2017, starting with parents of the youngest children. The scheme is worth a maximum of £2,000 per child (£4,000 for a disabled child). Tax relief of up to 20% will be available for childcare costs, up to a total of £10,000. Certain eligibility conditions apply to the parents. Until the new system comes fully into effect, childcare vouchers (normally offered as a salary sacrifice) offer working parents a way of reducing childcare costs, and there is still an opportunity to join an employer scheme. The childcare voucher scheme will close to new entrants in April 2018.

## Trivial benefits

Since 6 April 2016, a statutory exemption from income tax and NICs has applied to qualifying trivial benefits in kind costing £50 or less. The exemption does not apply to benefits provided under a relevant salary sacrifice arrangement.

Such benefits provided to directors and other office holders of close companies, or members of their families or households, are subject to an annual cap of £300.

**Contact us to discuss...**

- PAYE and payroll issues
- Ensuring you have the correct PAYE code
- Putting together an attractive and tax-efficient remuneration package
- Cutting the cost of company cars, and reviewing the alternatives
- Minimising NIC costs and understanding the tax implications of company cars

# Business exit strategies

## Planning ahead

At some point you will want to stop working in your business and either sell up – in which case business exit planning is a crucial element of your financial strategy, and could make all the difference to your long-term personal finances – or hand over the reins to your successors, in which case good planning will also help to ensure a smooth transition.

Important issues to consider include:

- Passing on your business to your children or other family members, or to a family trust
- Selling your share in the business to your co-owners or partners
- Selling your business to some or all of the workforce
- Selling the business to a third party
- Public flotation or sale to a public company
- Winding up
- Minimising your tax liability
- What you will do when you no longer own the business.

## Selling your business

If your business has a market value, or if you are looking to your business to provide you with a lump sum on sale, it is important to start planning in advance, especially if you envisage realising the value of your business in the next 20 years. Selling your business is a major personal decision and it is very important to plan now if you want to maximise the net proceeds from its sale.

You will need to consider:

- The timing of the sale
- The prospective purchasers
- The opportunities for reducing the tax due following a sale.

## Maximising the sale value

Up-to-date management accounts and forecasts for the next 12 months and beyond will be close to the top of the list of the information which you will need to make available to prospective purchasers.

Anyone who is considering buying your business will want to be clear about the underlying profitability trends. Are profits on the increase or declining? Historical profits drive the value attributable to many businesses, and therefore a rising trend in profitability should result in an increase in the business's value.

This means that profitability planning is particularly important in the years leading up to the sale. So, what is the range of values for your business?

A professional valuation will put you on more solid ground than educated guesswork. We can work with you to determine how you can add value to your business.

## Valuing your business

When considering business valuations, some of the key questions to ask are:

- Are sales declining, flat, growing only at the rate of inflation, or exceeding it?
- Are the stock and equipment a large part of your business's value, or is yours a service business with limited fixed assets?
- To what extent does your business depend on the health of other industries?
- To what extent does your business depend on the health of the economy in general?
- What is the outlook for your line of business as a whole?
- Are your business's products and services diversified?
- How up-to-date is your technology?
- Do you have an effective research and development programme?
- How competitive is the market for your business's goods or services?
- Does your business have to contend with extensive regulation?
- What are your competitors doing that you should be doing, or could do better?
- How strong is the business's staff base that would remain after the sale?
- Have you conducted a thorough review of your overheads, to identify areas where costs can be reduced?
- Have contracts with your suppliers and customers been formalised?

## Getting the timing right

It is important to consider a number of factors when deciding on the best time to sell your business. These could be factors that may influence potential buyers as well as your own personal circumstances.

**Personal factors** to consider might include:

- When are you planning to retire?
- Do you have any health issues?
- Do you still relish the challenges of running your business?
- Does your business have an heir apparent?
- Will your income stream and wealth be adequate, post-sale?

Meanwhile, **business question**s might be:

- What are the current trends in the stock market?
- To what extent is your business 'trendy' or at the leading edge?
- Is your business forecasting increases to the top and bottom lines?
- How well is your business performing when compared to other, similar businesses?
- Is your business running at, or near, its full potential?

## Minimising the impact of capital gains tax

Taxes are one of the less welcome, but nevertheless inevitable aspects of a business person's life. When you raise that final sales invoice and realise the proceeds from the sale of your business, you should be completing one of the last steps in a strategy aimed at maximising the net return by minimising the capital gains tax (CGT) on sale.

As a basic rule, CGT is charged on the difference between what you paid for an asset and what you receive when you sell it, less your annual CGT exemption if this has not been set against other gains. There are several other provisions, which may also need to be factored into the calculation of any CGT liability.

### CGT reliefs

It is possible that reliefs can reduce a 20% CGT bill significantly. To maximise your net proceeds it is vital that you consult with us about the timing of a sale, and the CGT reliefs and exemptions to which you might be entitled.

## The governing rules for CGT

The taxable gain is measured simply by comparing net proceeds with total cost (including costs of acquisition and enhancement expenditure). The rate of tax depends on your overall income and gains position for 2017/18. Gains will be taxed at 10% to the extent that your taxable income and gains fall within the upper limit of the income tax basic rate band and 20% thereafter. These CGT rates are increased to 18% and 28% for carried interest and gains on residential property.



A special tax relief, Entrepreneurs' Relief, is available for those in business, which may reduce the tax rate on the first £10m of qualifying lifetime gains to 10%. Generally, the relief will be available to individuals on the disposal (after at least one complete qualifying year) of:

- All or part of a trading business carried on alone or in partnership
- The assets of a trading business after cessation
- Shares in the individual's 'personal' trading company
- Assets owned by the individual used by the individual's personal trading company or trading partnership where the disposal is associated with a qualifying disposal of shares or partnership interest.

All planned transactions require careful scrutiny to ensure that the available Entrepreneurs' Relief is maximised. Remember to keep us in the picture – we are best placed to help and advise if you involve us at an early stage.

## CGT and non-residents

CGT is normally only chargeable where the taxpayer is resident in the UK in the tax year the gain arose, though the provisions of any double taxation treaty need to be checked. CGT may be avoided, provided the taxpayer becomes non-UK resident before the disposal and remains non-resident for tax purposes for five complete tax years.

## CGT and death

There is no liability to CGT on any asset appreciation at your death.

## Inheritance tax (IHT) and your business

### Lifetime transfer(s)

For the business owner, the vital elements in the IHT regime are the reliefs on business and agricultural property (up to 100%), which continue to afford exemption on the transfer of qualifying property, or a qualifying shareholding.

### Transfers on your death

Remember to take into account your business interests when you draw up your Will. While reliefs may mean that there is little or no IHT to pay on your death, your Will is your route to directing the value of your business to your chosen heir(s) unless the disposition of your business interest on your death is covered by your partnership or shareholders' agreement.

### Contact us to discuss...

- Getting your business ready for sale and minimising the tax due
- Identifying successors within the business
- Exploring possible purchasers
- Valuing your business
- Timing the sale and maximising the sale price
- Planning your transition to your next venture
- Providing for a transfer of your business interests at your death or if you become incapacitated

# Personal and family financial strategies

## Taking the long-term view

Every individual is different and will have unique financial needs and goals. You might simply want to maximise your wealth so that you can enjoy more of your hard-earned money now and in retirement. You might need to pay for your children's education, or to help support ageing parents. Or perhaps all of the above apply. As your accountants, we can suggest practical ways to help make these objectives become reality.

## Allowances and exemptions

Each individual within your family is taxed separately, and is entitled to his or her own allowances and exemptions. The basic personal allowance (PA) for 2017/18 is £11,500, while the capital gains tax annual allowance for 2017/18 is £11,300.

A series of rate bands and allowances are assigned first to your earned income (this may include income from wages, self-employment, property income and pensions), then to your savings income, and finally to any dividend income.

## Planning within the family

By using the available personal allowances and gains exemptions, a couple and their two children could have income and gains of at least £91,200 tax-free, and income up to £180,000 before paying any higher rate tax. Through careful tax planning, we could help you and your family to benefit from more of your wealth.

Your tax planning objectives should include taking advantage of tax-free opportunities, keeping marginal tax rates as low as possible, and maintaining a spread between income and capital.

| Income tax rates | 2017/18 |
|---|---|
| **Basic rate band – income up to** | *£33,500 |
| Starting rate for savings income | **0% |
| Basic rate | 20% |
| Dividend ordinary rate | ***7.5% |
| **Higher rate – income over** | *£33,500 |
| Higher rate | 40% |
| Dividend upper rate | ***32.5% |
| Additional rate – income over | £150,000 |
| **Additional rate** | 45% |
| Dividend additional rate | ***38.1% |
| **Starting rate limit (savings income)** | **£5,000 |

*Scottish taxpayers are liable on non-savings income and non-dividend income at 20% income tax up to £31,500, 40% between £31,501 to £150,000 and then 45%.

**There is a 0% starting rate for savings income up to the starting rate limit (£5,000) within the basic rate band. Where taxable non-savings income does not fully occupy the starting rate limit the remainder of the starting rate limit is available for savings income. For 2017/18, £1,000 of savings income for basic rate taxpayers (£500 for higher rate) may be tax-free.

***For 2017/18, the first £5,000 of dividends are tax-free.

| Capital gains tax | 2017/18 |
|---|---|
| Total taxable income and gains | |
| First £11,300 | Tax-free |
| Up to £33,500 | 10%* |
| From £33,501 | 20%* |
| Trust rate | 20%* |

*Depends on the level of income and gains. Gains are taxed after income and therefore utilise the remaining basic rate band. The rates are increased to 18% and 28% for carried interest and gains on residential property.

## Marriage Allowance

Some married couples and civil partners are eligible for a Marriage Allowance, enabling spouses to transfer a fixed amount of their PA to their partner. The option is available to couples where neither pays tax at the higher or additional rate. If eligible, one partner will be able to transfer 10% of their PA to the other partner (£1,150 for the 2017/18 tax year). For those couples where one person does not use all of their PA the benefit will be up to £230 (20% of £1,150).

## Personal Savings Allowance

The Personal Savings Allowance (PSA) relates to income such as bank and building society interest. The allowance applies for up to £1,000 of a basic rate taxpayer's savings income, and up to £500 of a higher rate taxpayer's savings income each year. The PSA provides basic and higher rate taxpayers with a tax saving of up to £200 each year. The allowance is not available for additional rate taxpayers and is in addition to the tax advantages available to savers from ISAs.

## Dividend Tax Allowance

The Dividend Tax Allowance (DTA) of £5,000 per annum does not change the amount of income that is brought into the income tax computation. Instead it charges £5,000 of the dividend income at 0% tax – the dividend nil rate. The DTA does not reduce total income for tax purposes, and dividends within the allowance still count towards the appropriate basic or higher rate bands. Proposals have been announced to reduce the DTA to £2,000 from 6 April 2018.



## Example

Beth is a single person with a gross 2017/18 income of £56,000 (made up of £26,000 earnings, £5,000 of interest and UK dividends of £25,000) and capital gains of £11,500 (assuming no other reliefs, etc). She would have a tax liability of £8,090.

| | **Earnings £** | **Interest £** | **UK Dividends £** | **Gains £** |
|---|---|---|---|---|
| Income and gains | 26,000 | 5,000 | 25,000 | 11,500 |
| Deduct: Personal allowance | – 11,500 | | | |
| Deduct: CGT exemption | | | | –11,300 |
| Taxable | 14,500 | 5,000 | 25,000 | 200 |
| **Tax at:** | | | | |
| 0% the PSA and DTA | 0 | 500 | 5,000 | |
| 20% on | 14,500 | 4,500 | | |
| 7.5% on | | | 9,000 | |
| 32.5% on | | | 11,000 | |
| 20% on | | | | 200 |
| **Totals** | £2,900.00 | £900.00 | £4,250.00 | £40.00 |
| **Total tax liability £8,090** | | | | |

## Transferring assets

Planning can be hindered by the potential for tax charges to arise when assets are moved between members of the family. Most gifts are potentially taxable as if they were disposals at market value, with a resulting exposure to CGT and IHT. However, special rules govern the transfer of assets between spouses. In many cases for both CGT and IHT there is no tax charge, but there are some exceptions – please contact us for further advice. In addition, gifts must be outright to be effective for tax, and must not comprise a right only to income. Careful timing and advance discussion with us are essential.

## The 45% and 60% 'effective' tax rates

The top rate of income tax, for those with taxable income in excess of £150,000, is 45% (38.1% for dividends). The PA is scaled back if 'adjusted net income' exceeds £100,000, being reduced by £1 for every £2 of income in excess of that limit. This means that an individual with total taxable income of £123,000 or more will not be entitled to any PA. This gives an effective tax rate on this slice of income of 60%. It may be possible to reduce your taxable income and retain your allowances, if approached with due consideration, eg. by making pension contributions or Gift Aid donations. Contact us now for advice on minimising the impact of the top tax rates.

## Child Benefit: another 'hidden' rate?

A charge arises on a taxpayer who has adjusted net income over £50,000 in a tax year where either they or their partner are in receipt of Child Benefit for the year. Where both partners have adjusted net income in excess of £50,000 the charge applies to the partner with the higher income.

The income tax charge applies at a rate of 1% of the full Child Benefit award for each £100 of income between £50,000 and £60,000. The charge on taxpayers with income above £60,000 will be equal to the amount of Child Benefit paid. Claimants may elect not to receive Child Benefit if they or their partner do not wish to pay the charge. Equalising income can help to reduce the charge for some families.



**Example**

Adam and Philippa have two children and receive £1,789 Child Benefit for 2016/17. Philippa has little income. Adam's income is over £60,000 for the 2016/17 tax year. So the tax charge on Adam is £1,789. For 2017/18 the Child Benefit for two children also amounts to £1,789 per annum. Adam expects his adjusted net income to be £55,000. On this basis the tax charge will be £895. This is calculated as £1,789 x 50% (£55,000 - £50,000 = £5,000/£100 x 1%).

If Adam can reduce his income by a further £5,000 no charge would arise. This could be achieved by transferring investments to Philippa or by making additional pension or Gift Aid payments.

## Cap on reliefs

There is a 'cap' on certain otherwise unlimited tax reliefs (excluding charitable donations) of the greater of £50,000 and 25% of your income. This cap applies to relief for trading losses and certain types of qualifying interest.

## Giving your children a helping hand

Funding university and saving up a deposit for a first home are expensive prospects, so the sooner you start planning, the better. All children have their own PA, so income up to £11,500 escapes tax this year, as long as it does not originate from parental gifts. If income from parental gifts exceeds £100 (gross), the parent is taxed on it unless the child has reached 18, or married. Parental gifts could be invested to produce tax-free income, or in a Cash or Stocks and Shares Junior Individual Savings Account (JISA) to help build a fund to help offset university expenses and minimise debts. The £100 limit does not apply to gifts into JISAs or National Savings Children's Bonds.

## Skipping a generation

If your child is grown up and financially secure, it may be worth 'skipping' a generation as income from capital gifted by grandparents or more remote relatives will usually be taxed as the child's, as will income distributions from a trust funded by such capital.

## Marriage breakdown

Maintenance payments do not usually qualify for tax relief. The special CGT and IHT treatment for transfers between spouses applies throughout the tax year in which separation occurs. For CGT, transfers in subsequent years are dealt with under the rules for disposals between connected persons, with the disposal treated as a sale at market value, which could result in substantial chargeable gains. For IHT, transfers remain exempt until the decree absolute. Timing is crucial; we can assist you.

## Planning for the worst

Contingency planning could help to protect your family if you die or are incapacitated. This might include taking out adequate insurance cover, perhaps with life assurance written into trust to ensure quick access to funds. It is also essential to make a Will. We also strongly recommend that you and your spouse:

- Make a living Will (also called 'advance decisions'): so that your wishes are clear with regard to medical treatment in the event that, for example, you were seriously injured following an accident
- Execute a lasting power of attorney: so that if you become unable to manage your affairs, as a result of an accident or illness, responsibility will pass to a person of your choosing.

Remember to tell your spouse, your parents, and your business partners where your Will and related documents are kept. If you are passing on responsibility for managing your affairs, it might be advisable to talk matters through with them.

## Do you have unclaimed assets?

Billions of pounds of assets lie unclaimed in the UK! To see if you have lost assets contact the Unclaimed Assets Register on 0333 000 0182 or visit www.uar.co.uk (NB: a charge applies for this service). To find out if you have an unclaimed Premium Bond prize, call 08085 007 007 or visit www.nsandi.com.

## Non-UK domiciles

A UK resident and domiciled individual is taxed on worldwide income and gains. Non-UK domiciles who are UK resident have been able to claim the remittance basis of taxation in respect of foreign income and gains and are only taxed if foreign income and gains are brought into the UK. The non-UK domicile is also favourably treated for IHT as they only pay IHT in respect of UK assets as opposed to their worldwide assets.



Proposals have been announced to abolish non-UK domicile status for certain long term residents from April 2017, where an individual has been resident for at least 15 of the last 20 tax years. Such individuals will be deemed UK domiciled for all tax purposes. In addition, those who had a UK domicile at the date of their birth will revert to having a UK domicile for tax purposes whenever they are resident in the UK, even if under general law they have acquired a domicile in another country.

| Checklist: Financial protection strategies | Self ✔ | Spouse ✔ |
|---|---|---|
| **Essential:** | | |
| Will | | |
| Living Will | | |
| Lasting power of attorney | | |
| Life assurance | | |
| Keep papers in a safe place – and make sure other people know where they are! | | |
| **Seriously consider:** | | |
| Income, mortgage and loan protection insurance | | |
| Tax-efficient estate planning | | |
| Planning for the transfer of your business | | |
| Funeral arrangements and expenses | | |
| A tax-efficient gift strategy | | |

**Contact us to discuss...**

- Making the most of allowances and reliefs
- Ensuring that your tax liability is kept to a minimum within the law
- Using savings, capital and other vehicles to give your children a better start in life
- Writing a Will
- Life insurance and obtaining disability and critical illness insurance
- Tax-efficient savings and investments

# Retirement planning strategies

Following a series of changes to the pensions regime, there are now more choices available to individuals when it comes to using the money they have saved for retirement. However, if you want to make the most of these options, it is vital that you have put aside sufficient funds during your working life, and that you take the appropriate advice.

While retirement may not currently be high on your priority list, many individuals still risk facing a pensions shortfall and you should take steps now to ensure that you will have the freedom and the means to achieve a comfortable retirement when the time comes. You could spend a third of your life as a retired person, and by taking action now, you can help to make this period as financially secure as possible.

## First steps

Your retirement planning strategy will be determined by a number of factors, including your age and the number of years before retirement. However, there are some other key issues to consider:

- Do you have an employer pension scheme?
- Are you self-employed?
- How much can you invest for your retirement?
- How much State Pension will you receive?

Individuals who reached State Pension age after 5 April 2016 receive a flat-rate pension, worth £159.55 per week where they have at least 35 years of national insurance contributions or credits.

Those who reached State Pension age before 6 April 2016 will continue to claim their basic State Pension (plus any additional state pension that they may be entitled to). The basic State Pension in 2017/18 is £122.30 a week.

To receive a State Pension forecast phone the Future Pension Centre on 0345 3000 168.

## Employer pension schemes

There are two kinds of employer pension scheme, into which you and your employer may make contributions. A defined benefit scheme pays a retirement income related to the amount of your earnings, while a defined contribution scheme instead reflects the amount invested and the underlying investment fund performance. In both cases, you will have access to tax-free cash as well as to the actual pension.

The impact of the stock market downturn in the 2000s was one key factor that resulted in many final salary schemes being underfunded and a decision was taken by many firms to close such defined benefit schemes. Many experts consider that this type of scheme will cease to exist over the next few years. Where firms do provide employer pensions these are now almost always defined contribution schemes.

The amount of personal contributions that can qualify for tax relief is limited to the greater of £3,600 and total UK relevant earnings, subject to scheme rules.

## Pensions auto-enrolment

In order to encourage more people to save for their retirement, the government has been gradually phasing in compulsory workplace pensions for eligible workers. Under the scheme, all employers will have to enrol automatically all eligible workers into a qualifying pension scheme. There will ultimately be a minimum overall contribution rate of 8% of each employee's qualifying earnings, of which at least 3% must come from the employer. The balance is made up of employees' contributions and associated tax relief.



## Personal pensions

Relying on the State Pension will not be adequate for a comfortable retirement, so if you are not in a good employer scheme, you should make your own arrangements.

To qualify for income tax relief, investments in personal pensions are limited to the greater of £3,600 and the amount of your UK relevant earnings, but subject also to the annual allowance. The annual allowance is £40,000 but this is tapered for individuals who have both income over £110,000 and adjusted annual income (their income plus their own and employer's pension contributions) over £150,000. For every £2 of adjusted income over £150,000, an individual's annual allowance will be reduced by £1, down to a minimum of £10,000.

Where pension savings in any of the last three years' pension input periods (PIPs) were less than the annual allowance, the 'unused relief' is brought forward, but you must have been a pension scheme member during a tax year to bring forward unused relief from that year. The unused relief for any particular year must be used within three years.

**Example**

Seth has not made any contribution into his pension policy so far in 2017/18. Seth has unused annual allowances of £30,000 from 2014/15, £5,000 from 2015/16 and £20,000 from 2016/17 (total £55,000). Seth's income is less than £110,000.

Seth's maximum pension investment is therefore set at £95,000 (£40,000 plus £55,000) for his 2017/18 PIP. He needs to make a pension contribution of £70,000 (current year allowance £40,000 and £30,000 unused relief from 2014/15) in order to avoid the loss of the relief brought forward from 2014/15.

If contributions are paid in excess of the annual allowance, a charge – the annual allowance charge – is payable. The effect of the annual allowance charge is to claw back all tax relief on premiums in excess of the maximum. Where the charge exceeds £2,000, arrangements can be made for the charge to be paid by the pension trustees and recovered by adjustment to policy benefits.

## Tax relief on personal pension policies

Premiums on personal pension policies are payable net of basic rate tax relief at source, with any appropriate higher or additional rate relief usually being claimed via the PAYE code or self assessment Tax Return.

**Example**

Colette will earn £60,000 in 2017/18. She will invest £12,500 into her personal pension policy. She is entitled to the basic personal allowance and has no other income.

Colette will pay her pension provider a premium, net of basic rate tax relief of £10,000. She is also entitled to higher rate tax relief on the gross premium, amounting to £2,500.

As Colette is an employee, we can ask HMRC to give the relief through her PAYE code. Otherwise, we would claim in Colette's 2018 Tax Return. Thus the net cost to Colette of a £12,500 contribution to her pension policy is just £7,500.

## The lifetime allowance

Where total pension savings exceed the £1m lifetime allowance at retirement (and fixed, primary or enhanced protection is not available) a tax charge arises:

| Tax charge (excess paid as annuity) | Tax charge (excess paid as lump sum) |
|---|---|
| 25% on excess value, then up to 45% on annuity | 55% on excess value |

The lifetime allowance was £1.25m in 2015/16. If appropriate, you can still apply to HMRC for protection from the reduction to £1m.

## Access to personal pension funds

Taxpayers have the option of taking a tax-free lump sum of 25% of the fund value and purchasing an annuity with the remaining fund, or opting for income drawdown which offers further flexibility in how the fund is used.

An annuity is taxable income in the year of receipt. Similarly any monies received from the income drawdown fund are taxable income in the year of receipt.

Taxpayers have total freedom to access a pension fund from the age of 55. Access to the fund may be achieved in one of two ways:



- Allocation of a pension fund (or part of a pension fund) into a 'flexi-access drawdown account' from which any amount can be taken, over whatever period the person decides
- Taking a single or series of lump sums from a pension fund (known as an 'uncrystallised funds pension lump sum').

When an allocation of funds into a flexi-access account is made the member typically will take the opportunity of taking a tax-free lump sum from the fund.

The person will then decide how much or how little to take from the flexi-access account. Any amounts that are taken will count as taxable income in the year of receipt.

Access to some or all of a pension fund without first allocating to a flexi-access account can be achieved by taking an uncrystallised funds pension lump sum.

The tax effect will be:

- 25% is tax-free
- the remainder is taxable as income.

## Downsizing and equity release

Although they might not suit everyone, there are at least two ways to boost your retirement finances through your home. The first option is down-sizing – selling your current home and buying something cheaper, to release value tied up in your property for other purposes. 'Equity release' might be an alternative approach. However, you should discuss all of the implications with us and your other financial advisers before deciding whether this is a suitable avenue to take.

**Contact us to discuss...**

- Calculating how much you need to save to ensure you enjoy a comfortable retirement
- Tax-advantaged saving for your pension
- Saving in parallel to provide more readily accessible funds
- Saving in employer and personal pension schemes
- Using your business to help fund your retirement
- Releasing capital now tied up in your home to help fund your retirement

# Savings and investment strategies

Your investment strategy might focus on pension savings, alternative savings and investment strategies, or a combination of these – but whatever your preference may be, it makes sense to start planning early. Planning is a continuous process and your financial plans should be monitored regularly, with any necessary adjustments being made to reflect changes in your circumstances. Careful planning now can help to keep you on the path to financial success.

## Taking a realistic view

Being realistic about your objectives is important when putting together any financial plan. This requires a balancing act between your head (financially prudent strategies) and your heart (emotionally acceptable thresholds). We can help you bridge the gap between what you can expect financially and what you dream of achieving. One approach is to set a number of short, medium and long-term goals and prioritise them within each category, in order to meet your objectives.

## Some typical financial goals

- Be able to retire comfortably
- Have sufficient funds and insurance cover in the event of serious illness or loss
- Accumulate a sizeable estate to pass on to your heirs
- Increase the assets going to your heirs by using various estate planning techniques, perhaps including a lifetime gifts strategy
- Tie in charitable aims with your own family goals
- Raise sufficient wealth to buy a business, a holiday home, etc
- Develop an investment plan that may provide a hedge against market fluctuations and inflation
- Minimise taxes on income and capital.



## Your investment strategy

Records show that in the long term share investments outperform bank and building society accounts in terms of the total returns they generate. However, it is important to remember that shares can go down in value as well as up, and dividend income can fluctuate. If you choose the wrong investment you could get back less than you invested. You will need to consider the most important factors that apply to you, as part of your investment strategy.

## Tax-efficient savings and investments

Paying tax on your savings and investment earnings is obviously to be avoided if at all possible. There are a number of investment products that produce tax-free income.

**National Savings**

Premium bonds offer a modest 'interest equivalent', but there is a chance of winning a tax-free million! The Premium bonds investment limit is £50,000.

**Investment bonds**

If you have a lump sum to invest long term, you might consider an investment bond. An annual sum equal to 5% of the original investment can be taken for 20 years without triggering an immediate tax liability. However, income and gains accumulating within the fund are subject to tax (equivalent to basic rate tax). On maturity, usually after 20 years, any surplus is taxable, but with a credit for basic rate tax. Higher rate tax might be payable, but a special relief (known as 'top slicing' relief) may be available to reduce or eliminate the burden.

**Stocks and shares**

Investment in stocks and shares has historically provided the best chance of long term growth. Investment in open ended investment companies (OEICs), investment trusts and exchange traded funds are designed to spread the risk compared to holding a small number of shares directly. Capital gains and dividends are charged to tax. A Dividend Tax Allowance of £5,000 a year is available. The rates of tax on dividend income above the allowance are 7.5% for basic rate taxpayers, 32.5% for higher rate taxpayers and 38.1% for additional rate taxpayers.

**Bank and building society accounts**

Bank and building society accounts do offer (a) a higher degree of certainty over investment return (spread large amounts over several banks, though) and (b) (usually) ready access to your funds. The Personal Savings Allowance (PSA) removes some income from income tax – up to £1,000 of a basic rate taxpayer's savings income and up to £500 of a higher rate taxpayer's income. No PSA is available to additional rate taxpayers. Additionally some taxpayers with amounts of non-savings income no more than the personal allowance also benefit from the £5,000 starting rate for savings band, with a rate of tax of 0%.

**Property investment**

Property is generally considered a long-term investment. 'Buy-to-let' mortgages will generally be available to fund as much as 75% of the cost or property valuation, whichever is the lower. Those investing in property seek a net return from rent which is greater than the interest on the loan, while the risk of the investment is weighed against the prospect of capital growth.

Landlords are no longer able to deduct all of their finance costs from their residential property income. They instead receive a basic rate reduction from their income tax liability. The government is introducing this change gradually from April 2017, over four years. For 2017/18 75% of the finance costs are deductible in full and 25% will qualify for a basic rate reduction subject to a cap in some situations. The restriction to finance costs does not apply to landlords of furnished holiday lettings.

**Individual Savings Accounts (ISAs)**

The overall annual subscription limit for ISAs is £20,000 for 2017/18. Individuals can invest in a combination of ISAs up to this limit, and may involve a single plan manager or separate managers, handling separate elements. However, a saver may only pay into one of each type of ISA each year.

16 and 17-year-olds can invest in an adult Cash ISA. A Junior ISA (JISA) is available to all UK resident children under 18 as a Cash or Stocks and Shares product or both. Total annual contributions are capped at £4,128. JISAs are owned by the child but investments are locked in until adulthood.

All investments held in ISAs are free of CGT and there is no minimum investment period for funds. However, some plan managers offer incentives, eg. better rates of interest, in return for a commitment to restrictions such as a 90-day notice period for withdrawals and it is worth shopping around.

**Lifetime ISA**

From 6 April 2017 any adult under 40 is able to open a new Lifetime ISA. They can save up to £4,000 each year and will receive a 25% bonus from the government for every pound they put in, up to the age of 50. Funds can be used to save for a first home worth up to £450,000 or for retirement.

**Help to Buy ISA**

Help to Buy offers a tax-free savings account for first time buyers saving for a home. Savings are limited to a monthly maximum of £200, with the option to deposit an additional £1,000 on opening the account.

The government provides a 25% bonus on the total amount saved including interest, capped at a maximum of £3,000 on savings of £12,000, which is tax-free. Interest received on the account will be tax-free. The bonus can be put towards a first home located in the UK with a purchase value of £450,000 or less in London and £250,000 or less in the rest of the UK. Once an account is opened there are no time limits on how long an individual can save for, or when they can use their bonus.

**The Innovative Finance ISA**

This ISA is designed to encourage peer-to-peer lending. It can be offered by qualifying peer-to-peer lending platforms in accordance with the ISA Regulations. Loan repayments, interest and gains from peer-to-peer loans will be eligible to be held within an Innovative Finance ISA, tax-free. Returns have the potential to be significantly greater than on Cash ISAs, but they will carry a greater degree of risk.

## Some alternative investment schemes

Although generally higher risk, the tax breaks aimed at encouraging new risk capital mean that the following schemes could have a place in your investment strategy.

**Enterprise Investment Scheme (EIS)**

Subject to various conditions, EIS investments attract income tax relief, limited to a maximum 30% relief on £1m of investment per annum. The effective maximum investment for 2017/18 is £2m, if £1m is carried back for relief in 2016/17 and no EIS investment has been made in the previous year. A deferral relief is available to rollover chargeable gains where all or part of the gain is invested in EIS shares (within the required period).



Although increases in the value of shares acquired under the EIS up to the £1m limit are not chargeable to CGT (as long as the shares are held for the required period), relief against chargeable gains or income is available for losses.

The gross value of the company must not exceed £16m after the investment and there are many restrictions to ensure investment is targeted at new risk capital. Companies must have fewer than 250 full-time employees (or equivalent), and have raised less than £5m under any of the venture capital schemes in the 12 months ending with the date of the relevant investment.

**Venture Capital Trusts (VCTs)**

These bodies invest in the shares of unquoted trading companies which would qualify for receipt of investment under the EIS. An investor in the shares of a VCT will be exempt from tax on dividends and on any capital gain arising from disposal of the shares in the VCT. Income tax relief of 30% is available on subscriptions for VCT shares, up to £200,000 per tax year, as long as the shares are held for at least five years.

**Seed Enterprise Investment Scheme (SEIS)**

This provides income tax relief of 50% for individuals who invest in shares in qualifying companies, with an annual investment limit for individuals of £100,000 and a cumulative investment limit for companies of £150,000, and provides a 50% CGT relief on gains realised on disposal of an asset and invested through the SEIS. A gain on the disposal of SEIS shares will be exempt from CGT as long as the shares obtained income tax relief, which has not been withdrawn, and are held for at least three years.

**Contact us to discuss...**

- Creating a savings and investment strategy
- Establishing and achieving your savings goals
- Tax on income and gains
- Investing for your retirement
- Tax-free investments
- The tax consequences of different investments

# Tax-efficient estate planning

## Minimising the inheritance tax bill

Formulating an estate plan that minimises your tax liability is essential. The more you have, the less you should leave to chance. If your estate is large it could be subject to inheritance tax (IHT), which is currently payable where a person's taxable estate is in excess of £325,000. However, even if it is small, planning and a well-drafted Will can help to ensure that your assets will be distributed in accordance with your wishes. We can work with you to ensure that more of your wealth passes to the people you love, through planned lifetime gifts and a tax-efficient Will.

| Estimate the tax on your estate | £ |
|---|---|
| **Value of:** Your home (and contents) | |
| Your business[1] | |
| Bank/savings account(s) | |
| Stocks and shares | |
| Insurance policies | |
| Other assets | |
| **Total assets** | |
| Deduct: Mortgage, loans and other debts | |
| **Net value of assets** | |
| Add: Gifts in last seven years[2] | |
| Less: Legacies to charities | |
| Deduct: Nil-rate band<br>325,000 | |
| Deduct: Residence nil-rate band | |
| **Taxable estate £** | |
| Tax at 40%/36% is £ | |

1. If you are not sure what your business is worth, we can help you value it. Most business assets currently qualify for IHT reliefs.
2. Exclude exempt gifts (eg. spouse, civil partner, annual exemption).
3. IHT rate may be 36% if sufficient legacies left to charities (see later). The tax on gifts between 3 and 7 years before death may benefit from a taper relief.

## Your Will - your way

If you own such possessions as a home, car, investments, business interests, retirement savings or collectables, then you need a Will. A Will allows you to specify who will distribute your property after your death, and the people who will benefit. Many individuals either do not appreciate its importance, or do not see it as a priority. However, if you have no Will, your property could be distributed according to the intestacy laws.

You should start by considering some key questions:

**Who?** Who do you want to benefit from your wealth? What do you need to provide for your spouse? Should your children share equally in your estate – does one or more have special needs? Do you wish to include grandchildren? Would you like to give to charity?

**What?** Should your business pass to all of your children, or only to those who have become involved in the business, and should you compensate the others with assets of comparable value? Consider the implications of multiple ownership.

**When?** Consider the age and maturity of your beneficiaries. Should assets be placed into a trust restricting access to income and/or capital? Or should gifts wait until your death?

## Making use of lifetime exemptions

You should ensure that you make the best use of the available lifetime IHT exemptions, which include:

- The £3,000 annual exemption
- Normal expenditure gifts out of after tax income
- Gifts in consideration of marriage (up to specified limits)
- Gifts you make of up to £250 per person per annum
- Gifts to charities
- Gifts between spouses, facilitating equalisation of estates (special rules apply if one spouse is non-UK domiciled).



## Spouses and civil partners

On the first death, it is often the case that the bulk of the deceased spouse's (or civil partner's) assets pass to the survivor. The percentage of the nil-rate band not used on the first death is added to the nil-rate band for the second death.

**Example**

Chris and Hilda were married. Chris died in May 2008, leaving £50,000 to his more distant family but the bulk of his estate to Hilda. If Hilda dies in 2017/18 her estate will qualify for a nil-rate band of:

| | |
|---|---|
| Nil-rate band on Chris's death | £312,000 |
| Used on Chris's death | £50,000 |
| Unused band | £262,000 |
| Unused percentage | 83.97% |
| Nil-rate band at the time of Hilda's death | £325,000 |
| Entitlement | 183.97% |
| Nil-rate band for Hilda's estate | £597,902 |

If you die within seven years of making substantial lifetime gifts, they will be added back into your estate and may result in a significant IHT liability. You can take out a life assurance policy to cover this tax risk if you wish. However, you can make substantial gifts out of your taxable estate into trust now, and as a trustee retain control over the assets (this may well be subject to CGT or IHT charges).

## IHT and the main residence nil-rate band

The new 'residence nil-rate band' (RNRB) now applies where a residence is passed on death to direct descendants such as a child or a grandchild. This is initially set at £100,000 in 2017/18, rising each year thereafter to reach £175,000 in 2020/21, and will increase in line with CPI from 2021/22. The additional band can only be used in respect of one residential property which has, at some point, been a residence of the deceased.

Any unused nil-rate band may be transferred to a surviving spouse or civil partner. It will also be available when a person downsizes or ceases to own a home on or after 8 July 2015 and assets of an equivalent value, up to the value of the additional nil-rate band, are passed on death to direct descendants.

There will be a tapered withdrawal of the additional nil-rate band for estates with a net value (after deducting any liabilities but before reliefs and exemptions) of more than £2 million. This will be at a withdrawal rate of £1 for every £2 over this threshold.

## Gifting

### Business assets

Under current rules, there will be no CGT and perhaps little or no IHT to pay if you retain business property until your death. This is fine, as long as you wish to continue to hold your business interests until death, and recognise that the rules may change.

Alternatively, you may wish to hand your business over to the next generation. A gift of business property today will probably qualify for up to 100% IHT relief, and any capital gain can more than likely be held over to the new owner, so there will be no current CGT liability. If business or agricultural property is included in the estate, it may be appropriate to leave it to someone other than your spouse; otherwise the benefit of the special reliefs may be lost.

### Appreciating assets

Gifts do not have to be in cash. You could save more IHT and/or CGT by gifting assets with the potential for growth in value. Gift while the asset has a lower value, and the appreciation then accrues outside your estate.



### Gifting income

Another way to build up capital outside your own estate is to make regular gifts out of income, perhaps by way of premiums on an insurance policy written in trust for your heirs. Regular payments of this type will be exempt from IHT, but please note that your executors may need to be able to prove the payments were (a) regular and (b) out of surplus income, so you will need to keep some records to support the claim.

### Charitable gifts

Gifts to charity can take many forms and result in significant tax reliefs for both lifetime giving and on death. Perhaps you are already making regular donations to one or more charities, coupled with one-off donations in response to natural disasters or televised appeals. Here we look at some of the ways you can increase the value of your gift to your chosen charities through the various forms of tax relief available.

### Gift Aid

Donations made under Gift Aid are made net of tax. What that means is that for every £1 you donate, the charity can recover 25p from HMRC. Furthermore, if you are paying tax at the 40% higher (or 45% additional) rate, you can claim tax relief equal to 25p (31p). Consequently, at a net cost to you of only 75p (69p additional rate), the charity receives £1.25.

A payment made in the current tax year can, subject to certain deadlines, be treated for tax purposes as if it had been made in 2016/17. This may not appear important to many people, but if you paid additional rate tax in 2016/17 and do not expect to do so this year, a claim will allow you to obtain relief at last year's rate. (Note: The carry-back election must be made before we file your 2017 Tax Return – another example of the importance of keeping us informed!) You must pay enough tax in the relevant year to cover the tax the charity will recover (that is, 25p for every £1 you gift).

### Payroll giving

You can make regular donations to charity through your payroll, if your employer agrees to operate the scheme. It operates by deducting an amount from your gross pay equal to the net cost to you of the monthly net donation you want to make.

**Gifts of assets**

Not all donations need to be money. You can make a gift of assets, and if the assets fall within the approved categories the gift can obtain a triple tax relief. Any gain which would accrue on the gift is exempt from CGT and the asset is removed from your estate for IHT. In addition the value of the asset is deductible against your income for the purposes of calculating your income tax liability.

**Charitable legacies on death**

A reduced rate of IHT applies where 10% or more of a deceased's net estate (after deducting IHT exemptions, reliefs and the nil-rate band) is left to charity. In those cases the 40% rate will be reduced to 36%.

## Estate planning for single people

Single people might not have given much thought to estate planning, but you should make a Will to set out your preferred funeral arrangements, how you want your estate to devolve on your death, and who will have responsibility for it.

Your estate might pass to your parents or your siblings, but would you perhaps prefer to leave your wealth to your nieces and nephews – with the bonus of potential IHT savings through 'generation skipping'? A Will is also vital for anyone who, although legally 'single', has a partner who they wish to benefit from the estate on their death.

## A second marriage

Parents face a different set of challenges in second (or subsequent) marriages. If both partners are wealthy, you might want to direct more of your own wealth to children of your first marriage. If your partner is not wealthy, you might wish to protect him or her by either a direct bequest or a life interest trust (allowing your assets to devolve on their death according to your wishes). Should younger children receive a bigger share than grown up children, already making their own way in the world, and should your partner's children from the previous marriage benefit equally with your own?

If you are concerned about your former spouse gaining control of your wealth, consider creating a trust to ensure maximum flexibility in the hands of people you choose. You also need to plan to ensure that your partner is properly provided for. Look at your Will, pension provisions, life insurance and joint tenancies.



## Providing for your grandchildren

Your children may be grown up and financially secure. If your assets pass to them, you will be adding to their estate, and to the IHT which will be charged on their deaths.

Instead, it might be worth considering leaving something to your grandchildren.

## Updating your estate plan...

Estate plans can quickly become out of date. Revisions could be due if any of the following events have occurred since you last updated your estate plan:

- The birth of a child or grandchild
- The death of your spouse, another beneficiary, your executor or your children's guardian
- Marriages or divorces in the family
- A substantial increase or decrease in the value of your estate
- The formation, purchase or sale of a business
- Retirement
- Changes in tax law.

## ...and reviewing your Will

A Will can be a powerful planning tool, which enables you to:

- Protect your family by making provisions to meet their future financial needs
- Minimise taxes that might reduce the size of your estate
- Name an experienced executor who is capable of ensuring that your wishes are carried out
- Name a trusted guardian for your children
- Provide for any special needs of specific family members
- Include gifts to charity
- Establish trusts to manage the deferral of the inheritance of any beneficiaries
- Secure the peace of mind of knowing that your family and other heirs will receive according to your express wishes.

Having taken the time to make a Will and prepare an estate plan, you must review them regularly to reflect changes in family and financial circumstances as well as changes in tax law. Wills can also be re-written by others within the two years after your death, in the event that some changes are agreed by all concerned to be appropriate.

With regular reviews we can help you to ensure that you make the most of estate planning tax breaks.

### Contact us to discuss...

- Inheritance tax planning and writing a Will
- Gifts to charity, and minimising tax on gifts and inheritances
- Disposition of your assets on death
- Using trusts in lifetime and estate tax planning
- Your choice of an executor
- Inheritance tax reduction planning and life assurance to cover any liabilities
- Naming a guardian for your children
- Lifetime gifts of assets, including business interests
- How your business interests should devolve if you die or become incapacitated

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