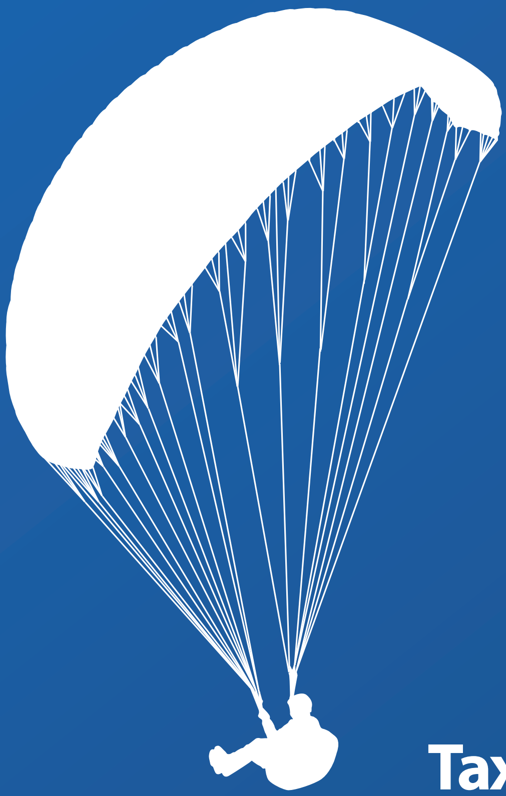

Tax Planning for Individuals 2016

☎ 03333 219 000
✉ advice@bishopfleming.co.uk
www.bishopfleming.co.uk

Bishop Fleming

As 5 April 2016 approaches there is an opportunity to review your tax affairs to make sure that you have minimised your tax bill. The following guide provides a selection of ideas and suggestions to reduce your exposure to tax by taking advantage of available reliefs and allowances.

Your particular circumstances must always be considered. As well as possible tax savings, account must be taken of health, age, marital status, children, and whether you intend to remain in the UK.

Please read the disclaimer at the end of this guide.

Income tax

- Where income exceeds £150,000 it is taxed at the additional rate of 45%. And income between £100,000 and £121,200 is taxed at 60% due to the gradual withdrawal of the personal allowance. Where possible, individuals with income approaching these thresholds should consider ways of reducing their income to keep it below these levels. Two ways of doing this are to make pension contributions or charitable donations.

- Where taxable income exceeds £50,000 (or that of a partner) and child benefit is being claimed, there is a clawback of the child benefit at the rate of 1% of the benefit for every £100 of income over £50,000. The financial benefit of claiming child benefit is lost entirely where individual taxable income reaches £60,000. Care should therefore be taken where possible to keep individual taxable income below £50,000 to avoid the clawback, such as by making pension contributions or charitable donations. It may also be possible to reallocate assets or trading profits between partners to keep both below the threshold.

- Since April 2015 spouses/civil partners who cannot claim the married couples allowance have instead been able to transfer 10% of their personal allowance to each other to save tax. This is beneficial where one spouse/partner does not have enough income to use their allowance in full. The transfer is not available where either spouse/partner pays income tax at higher rates.

- Transferring income-generating assets between married couples or civil partners (e.g. private company shares) where one spouse or partner pays little or no tax can result in a much lower tax bill overall. Such transfers must be outright gifts without conditions.

- Where assets are owned jointly between spouses, any income will be treated as divisible equally between the two for tax purposes, unless a joint declaration is made to the contrary. This facility is not available for close company dividends which have to be based on actual shareholdings.

- Where one spouse makes gift aid payments but does not have enough income to cover the charges, consideration should be given to transferring the commitments to the spouse with more income, or gifting income-generating assets to the spouse that already has the obligations.

- Making a gift aid donation before 31 January 2016 would allow you to elect for the donation to be treated as made in the previous tax year, to accelerate tax relief.

- Instead of gift-aiding cash, an alternative would be to gift stock market listed shares to a charity to generate income tax relief (and avoid a CGT liability).

- Income can be reduced through maximising claims for certain tax reliefs or through making certain business investments. We can explain what claims and investments are available to achieve this.

- Capital Gains Tax (CGT) is payable at 18% or 28% depending on whether you are a basic rate or higher rate taxpayer. It may be possible to transfer assets pregnant with gains to a spouse or civil partner who would pay tax at only 18%.

Business profits

- Where the accounting date coincides with the tax year, consider bringing forward revenue and capital expenditure to before the year end in order to secure earlier relief, subject to commercial considerations.

- Revenue expenditure could include a salary payment to the spouse, as long as it is justifiable for tax purposes. An approved pension could also be established for the spouse to provide a further deduction against business profits.

- Capital expenditure on plant and machinery for the business of up to £200,000 could be 100% relieved under the Annual Investment Allowance (AIA).

- Losses from self-employment can be set against your other income in the same or previous tax year, subject to an annual cap of £50,000 (or 25% of your income if higher). Losses of the first four tax years of trading can be carried back up to three tax years, subject to limits on set-off. Making the right claim for loss relief can result in maximum tax relief and an improved cashflow.

Employees

- Where possible, a portion of salary could be sacrificed for other benefits, pension contributions or share options. This will save National Insurance Contributions (NICs). It could also save income tax where the sacrifice brings the income to below £100,000. The employer also benefits by saving employer's NIC.

- Consider the timing of bonuses so that they fall into the right year for tax purposes, taking in account other commercial and financial issues.

- Consider investing in an employee share scheme that offers tax advantages. There are saving limits and holding periods to take into account.

- From 6 April 2016, the amount that savers can pay into a pension and still benefit from tax relief will be reduced by £1 for every £2 that their annual income exceeds £150,000. The pension annual allowance will be restricted to just £10,000 for anyone on an annual income of more than £210,000. Carry forward of unused annual allowance will still continue, but the amount available will be based on the unused tapered annual allowance. Employers should therefore consider overhauling their pensions in advance of this change.

Company Cars

- The provision of a company car is now a highly taxed benefit and it is far better to consider alternatives (or a low CO_2 emission vehicle). One alternative would be for the employer to offer an interest free loan of up to £10,000 per annum to enable an employee to run their own vehicle. Such a loan would be tax free. Another alternative would be for the employee to use their own car for business travel and claim a tax-free mileage allowance from the employer.

- Where fuel has been provided by the employer for private use, consider whether full reimbursement of the cost to the employer would be a cheaper option than paying the fuel scale charge.

Children

- Each child under the age of 18 can have their own Junior Individual Savings Account (ISA). Parents and grandparents can contribute up to £4,080 a year free of tax for each child into a Junior ISA.

- Where there are children aged 16 or over who would like to buy a home, funds could be gifted to them in order that they can then invest in the new help-to-buy ISAs. These ISAs are available for four years from autumn 2015 to assist first time buyers. Individuals can invest up to £200 per month, with the government adding 25% tax free up to a maximum of £3,000 on £12,000 of savings.

- A net contribution can be made for each child into a stakeholder pension of up to £2,880, even where they do not have any income. The sooner a pension is started, the greater will be the final pension fund at retirement.

Family Company

- Where you are a director of a family company you can seek to minimise your tax exposure by taking a combination of salary, dividends and benefits in kind. We can advise you on the most tax-efficient permutation.

- From 6 April 2016 the rate of dividend tax will increase, subject to a new £5,000 Dividend Tax Allowance (DTA). Where you receive a large amount of dividend income from your company, you should consider accelerating dividend payments to before 6 April 2016 to benefit from the current lower rates. However, if you are normally a basic rate taxpayer, the receipt of a large dividend this year could push you into higher rate tax, or even cause you to lose personal allowances, which would be counter-productive. Where, however, you normally receive low amounts of taxable dividend income, it may be beneficial to defer dividends until after 5 April 2016 so that you benefit from the new DTA.

- The company can make pension contributions on behalf of its directors and receive tax relief for the payment against corporation tax. In addition, no employer's NIC would be payable.

- An overdrawn director's loan account with a small company will result in a (reclaimable) 25% tax charge where the loan is not repaid within nine months of the company's accounting period end. Where possible, arrange to repay any loan before this deadline, perhaps via a dividend from the company.

- From 6 April 2016 certain small company capital distributions will be taxed as income rather than capital, resulting in a higher tax bill for the individual. This could catch a winding up, a company purchase of own shares, a repayment of share capital, or the sale of shares to a connected party. You may wish to consider winding up your company before 6 April, or to at least consider a capital distribution before that date to avoid an income tax charge. Any distributions on or after 6 April 2016 (even where a winding up is started before that date) will be caught. If you feel you may be affected by these rule changes and would like to discuss what you can do before next April, please contact us for advice.

Property

- If you own a second home it may be possible to save CGT by nominating which is your main residence, where you have lived in both. Valuable relief will then be available against the CGT arising on the sale of the property with the largest gain, or that which is likely to be sold first.

- If you are renting out a property that was previously your home then a proportion of the gain on disposal relating to the time when it was your main home will be tax exempt. You should also be able to claim lettings relief of up to £40,000 (£80,000 for joint ownership) against that portion of the gain which is not exempt. In addition, the last 18 months of ownership are tax exempt.

- From 6 April 2016 landlords can only claim for the actual amounts they spend on replacing furnishings in let property during a year. Therefore, consider deferring the replacement of any furnishings until after 5 April 2016 to claim the relief.

- From 6 April 2017 tax relief for landlords' finance costs (including loan interest) will gradually be restricted, which means a greater proportion of rental income will be taxed. Companies and furnished holiday lets are not affected. If you have borrowings against your rental properties, you need to review your investment strategy and we will be happy to discuss this with you.

- From 1 April 2016 an additional 3% stamp duty will be charged on purchases of additional residential properties (above £40,000). This could affect landlords, as well as home owners looking to downsize whilst keeping their larger property. Where such a property purchase is planned, consider bringing forward the completion date to before 1 April 2016 where possible to avoid the extra charge, subject to commercial and legal considerations. The higher rate will not apply to purchases of caravans, mobile homes or houseboats, or to certain property companies.

Pensions

- Consider making a pension contribution of up to £40,000 before 6 April 2016 to soak up any unused pension relief available. Tax relief will be available at your marginal rate. If you have unused relief from the previous three tax years, then that too can be used in the current year to reduce your tax bill for 2015/16. Maximising contributions before 6 April 2016 will be advantageous for individuals with an annual income in excess of £150,000, as their tax relief for contributions in future years will be restricted. There could also be further restrictions in the near future as part of a wider reform of pension tax relief.

- Stakeholder pensions allow contributions to be made by, or for, all UK residents, including children. It can therefore be worth making a net contribution of up to £2,880 (£3,600 gross) before 5 April 2016 for members of your family, even for those who do not have any earnings.

- If you don't currently have a pension then now is a good time to start one before the tax year end.

- NOTE: it is important to take advice from an independent financial adviser on contribution levels, because if the total contributions you make, or that are made on your behalf, exceed your available allowance (including any unused relief brought forward), a tax charge will arise.

Inheritance

- It is important to plan ahead to mitigate inheritance tax (IHT). Such planning can be complex, so it is vital to take professional advice before embarking on any particular transaction. There are, however, a number of reliefs available which should be considered.

- You can gift up to £3,000 each tax year free of IHT, or £6,000 if there was no gift in the previous tax year. You are also allowed to make as many gifts of up to £250 each as you wish to other people as well as gifts on the occasion of a marriage. Regular gifts out of income can also be made as long as your capital or standard of living is not reduced, though advice should be taken before doing this.

- If you prefer not to make gifts now you may prefer to fund any potential IHT liabilities by the use of assurance policies.

- Certain types of assets attract business profit relief (BPR) or Agricultural property relief (APR) from IHT. Consider investing in assets that would qualify for BPR or APR.

- Consider making a will or reviewing an existing will to ensure your wishes are properly reflected in writing. A will avoids the intestacy rules which could create undesired results. It also allows for some considered tax planning to minimise your family's future tax exposure. A review of the will may be necessary as a result of the new transferrable Residence Nil Rate Band (RNRB) starting from 6 April 2017 which is set against a residence passed on to a direct descendent (including step, foster and adopted children).

- An estate can pay IHT at a reduced rate of 36% on some assets (instead of 40%) if 10% or more of the 'net value' of the estate (after all IHT exemptions, reliefs and nil-rate band) is left to charity. To take advantage of this, ensure that such charitable gifts are specified as a percentage of your estate, rather than a fixed sum or specific asset, to prevent changes in asset values resulting in the gift falling under the 10% threshold.

- A trust can be useful in saving tax as well as protecting valuable assets. We will be happy to discuss how a trust could benefit you and your family based on your individual circumstances.

- As a surviving spouse can now inherit a deceased spouse's Individual Savings Account (ISA) funds (which can then remain in the ISA), ensure where possible that your will makes clear that your spouse is to inherit your ISAs rather than other family members.

Investments

- The overall annual amount you can invest in a tax-free ISA is £15,240 (£30,480 if combined with a partner). There is now no limit as to how much of this is held as cash. Stocks and shares already held in an ISA can be transferred to a cash account if required. Income and capital gains from ISAs are tax free and withdrawals from adult ISAs do not affect tax relief.

- You can currently only open a single cash ISA and a single stocks and shares ISA each tax year. However, the rules allow you to open other ISAs to transfer in old ISAs. You are in fact free to transfer as much as you like from old ISAs into new ISAs without using up the new ISA allowance.

- There are various tax incentives for investing in companies such as the Enterprise Investment Scheme (EIS) and the Seed EIS. Whilst EIS offers 30% income tax relief, SEIS offers 50% relief – although the investment limits in the latter are far less than the former. There is also relief against capital gains tax (CGT) when you come to sell the investments, provided you have held them for at least three years. It is possible to carry back qualifying EIS investments to a previous tax year to accelerate tax relief. We would be happy to discuss these reliefs with you in more detail.

- A capital gain on the disposal of a business asset can be rolled over into the purchase of another business asset bought within a period starting one year before and ending three years after the disposal. EIS deferral relief has a similar effect if the gain were to be reinvested in a qualifying company within the same time period (subject to the relevant conditions being met).

- Each individual (and each minor child) is entitled to an annual CGT allowance (£11,100 for 2015/16). If this has not already been used, it may be possible to dispose of assets that could soak this up, subject to commercial considerations. Where the allowance has already been used for the current year, it may be worthwhile holding off selling any further assets until after 5 April 2016 in order to use next year's allowance, again subject to commercial considerations.

- Married couples and civil partners can transfer assets between them on a no gain/no loss basis. Such transfers may be beneficial to ensure both annual exemptions are used.

- CGT is payable at either 18% or 28%, depending on your other income. Where you are likely to pay CGT at 28% on the disposal of an asset, consider making a pre-disposal transfer to the spouse where they would pay tax at only 18%.

- Where practical, it may be worthwhile delaying a disposal until after the 5 April in order to defer the payment of CGT by a further year.

- Where an asset has become of negligible value, consider making a claim for the loss.

- If you have substantial investments outside of an ISA or other tax-efficient envelope, consider changing them to secure either a tax-free return, or a return of capital taxed at a maximum rate of 28%, instead of income taxable at up to 45%.

- Entrepreneurs Relief (ER) can reduce your CGT rate to just 10%, provided you meet certain conditions. If you are contemplating a disposal of all or part of your business then please contact us to see if this relief may be available.

- Capital losses from disposals are deducted from gains before deduction of the annual exemption or any ER. Consider deferring the disposal of assets with losses that would otherwise waste exemptions and reliefs.

- Gifting stock market listed shares to a charity not only generates income tax relief on the donation, but also avoids a CGT liability for the donor. If, however, the asset is running at a loss, it should ideally first be sold before gifting the sale proceeds to the charity, to ensure the capital loss is available for set off against any other capital gains – as well as securing the gift aid relief.

Residency

- Leaving the UK or coming to live in the UK from abroad needs careful planning, as residence status for tax purposes can raise complex issues. There are anti avoidance rules surrounding CGT where you move abroad.

- If you are non-UK resident, you will need to monitor your visits to the UK to avoid becoming UK resident and liable to tax.
- If you are UK resident and have any offshore assets or income, you need to let us know. The UK tax office is now receiving information from over 90 countries on international investments and financial structures held offshore by UK tax residents. There will be penalties for not declaring such overseas interests.
- If you are not UK domiciled and are living in the UK and have overseas income and gains, you may wish to consider the remittance basis of taxation where it could save tax. As the rules are becoming much stricter, now is an opportune moment to discuss your circumstances.
- If you are not UK domiciled it is crucial to review your remittances before 6 April 2016. With new rules from 6 April 2017 that will see some non-UK domiciled individuals lose their tax status, it is essential that you review your options.

Contact us

For further help and advice, please contact your usual Bishop Fleming adviser.

03333 219 000

advice@bishopfleming.co.uk

www.bishopfleming.co.uk

Bishop Fleming