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Pre-Tax Year End Planning

The following measures are available to individuals which may have an effect in saving or deferring tax and is sent at this time to ensure appropriate action is taken before any such opportunities are lost, as the end of the tax year approaches.

This is not meant to be an exhaustive list, but includes a number of standard measures which should be considered before the tax year ends on 5 April.

Utilising personal tax reliefs

Income received within the limit of the personal tax allowance is received free of tax. You should ensure your taxable income is sufficient to absorb the tax-free amount. (£10,000 year ended 5 April 2015)

Also it is not unusual for the spouse of a self-employed person or family company to work in the business. The spouse or other family members could be paid for this work up to the limit of their personal tax allowance if not otherwise used. It is generally advisable to keep such pay below the National Insurance threshold to avoid 12% employees and 13.8% employers NIC. The current NIC limit is £153 per week. (Watch the hours they are paid for though, as the Minimum Wage Legislation will apply—currently £6.50 for adults).

A child is entitled to a personal tax allowance whatever the age and one should consider employing teenage children. You need to watch the minimum wage legislation, which for 16 and 17 year olds is £3.79 per hour and 18 to 20 year olds £5.13 per hour (from October 2014). (This applies mainly to family members employed by family companies).

Age related personal allowances

These apply to individuals over 65, with further increase for those over 75.

A married couple's allowance is also still available to those age groups.

However, such extra allowances are reduced £1 for every £2 taxable gross income over an annual limit (£27,000 in 2014/15). Action should be taken where possible to reduce gross taxable income levels where the annual limit is exceeded. Tax-free investments such as ISA's and investment bonds can be utilised, or moving investments between spouses, to remove taxable income which would otherwise count for the purposes of the above limit.

Utilising basic rate tax bands

Those in business via companies should consider maximising their dividends before the end of the year to use up any basic rate tax band remaining. This is because dividends produce no personal tax liability up to the basic rate tax band limit and do not alter the company's tax liability. Also dividends are not subject to National Insurance. This means the extra dividends can be taken tax-free or the Director's Loan Account credited with the dividends for withdrawal in the future when funds allow, tax-free. Where spouses are also shareholders in the business, their basic rate tax bands should be considered also.

However, it should be borne in mind that dividends can only be paid out of reserves of profit, should be minuted and paid in proportion to share holdings.

Tax-efficient investments

An end of year review should consider certain investments which give a tax deduction or exemption, as follows :-

<u>Pension planning</u>

Pension contributions are very efficient for tax relief purposes being fully deductible all the way up to the higher rates of tax, if paid personally. Making or

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maximising contributions should be considered to be effective for the tax year, before it ends.
Limits for tax relief are as follows:

a) £3,600 for people with no earnings
b) Relevant earnings up to £40,000 pa (personal allowance)

You can carry forward any unused personal allowance for up to 3 years (but only if you were a member of a registered pension scheme in those previous years).

However tax is not the only consideration and careful advice should be taken from an independent financial advisor, as to the investment benefit of such contributions.

Enterprise investment scheme (EIS), Seed EIS & Venture Capital Trusts
Providing appropriate conditions are met, investments (up to appropriate limits) in new equity in unquoted trading companies and venture capital trusts will enjoy 30% tax relief or 50% for SEIS. Gains on sale of EIS shares are exempt from Capital Gains Tax, if held for appropriate period. Dividends and gains on venture capital trusts are exempt from tax. However the very nature of this type of investment involves a high element of risk and therefore advice should be carefully sought before any such investments are made.

ISA's
One should consider investing up to the maximum (£15,000) before the opportunity is lost for the year, bearing in mind the tax-free nature of these investments, both for income tax and capital gains tax.

National Savings
Investments in premium bonds up to a maximum of £40,000 is tax free. Children's bonus bonds are also tax-free.

Income deferrals/realisation
Investments can be arranged to defer income beyond the tax year by utilising guaranteed income bonds and fixed term deposits. Longer term flexibility can be achieved by using single premium bonds or off-shore currency funds which do not have distributor status. In a year in which income falls below the basic rate band, income can be realised tax-free by cashing in the investment bond or selling units in off-shore currency bonds.

Husband & wife
The transfer of income-producing assets between spouses should be considered, particularly if one spouse would not attract a higher rate tax liability on the income whereas the transferring spouse would.

Businesses

For those sole traders and partnerships with rising profits, a change of accounting date can be effective in deferring tax on such rising profits.

Capital Gains Tax

The annual exemption (£11,000 2014/15) is available after losses and can be used to realise gains tax-free. If no other gains arise in the year and it is appropriate and desirable to dispose of an asset which has an inherent gain, this should be considered before the end of the tax year to utilise the annual exemption.

Note that husbands and wives both have their own annual exemption. A transfer of assets between spouses therefore affords the opportunity to utilise their annual exemptions.

If assets purchased previously have become of negligible value, a claim should be made to establish the loss. If the investment was in unquoted new shares in a trading company, relief for the losses may be claimable against income tax.

Inheritance Tax

Use of the available exemptions for annual gifts should be considered before the opportunity is lost for this particular tax year.

Charity Giving

Donations under the gift aid scheme enjoy tax relief at the higher rates of tax, for those who are taxed at that level.

The above represents general advice and for the purposes of brevity does not include all the often complex rules which apply to much of the above. We strongly advise you request advice on your own particular circumstances, before proceeding with any of the above measures.

March 2015