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2016/17 Year End Strategies

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Sound financial planning is always advisable, but as we enter a period of economic uncertainty following the UK's vote to leave the EU, it is now more important than ever to ensure your finances are in hand.

That is where we can help. Although the full implications of so-called Brexit may be unclear, we can work with you to ensure your business and personal finances are in a strong position to weather whatever lies ahead.

This includes planning to make the most of the tax-saving opportunities available to you, particularly ahead of the tax year end. As your accountants, there are many ways we can help you to lower your tax liabilities, increase the profitability within your business and maximise your personal wealth. These might include:

- making the most of the tax-efficient schemes available to you and your business
- saving for a comfortable retirement
- reducing your inheritance tax bill
- driving down the cost of business motoring.

This guide considers some tax-efficient planning strategies that you might want to implement before 5 April 2017. However, there is no substitute for one-to-one advice, so be sure to contact us to discuss your individual circumstances.

Timing is key

It is essential to act now in order to minimise your tax bill and maximise tax reliefs – don't wait until 5 April 2017! Talking to us in good time will ensure that we can discuss the tax planning opportunities available to you and help you manage your cash flow by giving you early warnings of any tax payments due.

We can help you plan for a more prosperous future, whilst ensuring that you stay compliant with the taxman. Contact us today.

Watch out for the 'hidden' top rate!

If your income exceeds £100,000 you will already be paying tax at 40% – this begins when taxable income exceeds £32,000 – but your personal allowances are also clawed back by £1 for every £2 by which your adjusted net income exceeds £100,000.

This means that an individual with adjusted net income of £122,000 or more will not be entitled to any personal allowance, resulting in an effective tax rate on this slice of income of 60%!

If you are likely to be affected by this, you might want to consider strategies to reduce your taxable income and retain your allowances – for example, delaying income into the next tax year or increasing your payments into a pension.

If you want to avoid the 60% 'hidden top rate' you will usually need to act before the end of the tax year on 5 April. However, there is one 'adjusted net income' reducer which can be arranged after the end of the year – a Gift Aid carry-back. Subject to making a qualifying donation to charity and the associated claim no later than when you file your 2016/17 Tax Return, a donation which would otherwise fall into 2017/18 can be claimed for 2016/17. Certain rules and conditions apply.

For further advice on minimising the impact of the top rates of income tax, please get in touch.

A new generation of ISAs...

Despite ongoing low interest rates, ISAs can still offer a useful tax-free way to save, whether this is to help fund your children's future, save for a first home or simply to put aside money for a 'rainy day'.

Increased flexibilities introduced from 6 April 2016 could allow individuals to replace cash they have previously withdrawn from their ISA earlier in a tax year, without this replacement affecting their annual subscription limit. This can also be done for cash that is held within Stocks and Shares ISAs if the provider offers the facility through a cash trading account.

Individuals can invest in any combination of cash or stocks and shares up to the overall annual subscription limit of £15,240 in 2016/17. However, a saver may only pay into a maximum of one Cash ISA, one Stocks and Shares ISA and one Innovative Finance ISA (see below) each year. You have until 5 April 2017 to make your 2016/17 ISA investment.

Meanwhile, a tax-free Junior ISA (JISA) is available to all UK resident children under the age of 18 as a Cash or Stocks and Shares product, or both. Total annual contributions are capped at £4,080. Funds placed in a JISA will be owned by the child but investments will be locked in until the child reaches adulthood.

The Innovative Finance ISA

The new Innovative Finance 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, without being subject to tax. Returns on Innovative Finance ISAs have the potential to be significantly greater than on Cash ISAs, but they will carry a greater degree of risk.

And don't forget...

The Help to Buy ISA provides a tax-free savings option for those wishing to save for a first home, with savings of up to £12,000 attracting a 25% bonus from the Government (capped at a maximum of £3,000). Various rules apply – please ask us for details.

0% tax rate for many

With the introduction from 6 April 2016 of a new Personal Savings Allowance, which allows basic rate taxpayers to have up to £1,000 of savings income taxed at 0% (£500 for higher rate taxpayers), there is scope to shelter some savings income from tax.

Tax-efficient saving for a financially secure retirement

Planning for your retirement may not be at the top of your agenda, but it is vital to start thinking about how you will fund your life after work.

Many people do not take advantage of tax reliefs and (tax-deductible) employer contributions when building a fund for their retirement. However, personal contributions to pension schemes may attract tax relief worth up to 60%, making them an ideal tax-free investment regime.

For pension contributions to be applied against 2016/17 income they must be paid on or before 5 April 2017. Tax relief is available on annual contributions limited to the greater of £3,600 (gross) or the amount of your UK relevant earnings, but also subject to the annual allowance, which is generally £40,000.

In April 2016 the Government introduced a taper to the annual allowance for those who have both net income over £110,000 and adjusted annual income (their income plus their own and their employer's pension contributions) over £150,000. For every £2 of adjusted income over £150,000, an individual's annual allowance is 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.

The overall tax-advantaged pension savings lifetime allowance is currently £1 million for 2016/17, down from £1.25 million in 2015/16.

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

We can advise you on the complex rules surrounding pension contributions, so please contact us for more information.

Taking advantage of capital allowances

Capital allowances allow the costs of capital assets to be written off against taxable profits.

The maximum amount of the Annual Investment Allowance (AIA) has been set at a permanent rate of £200,000 from 1 January 2016. 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.

'Greener' investment is encouraged through specific 100% allowances available for some investments, including energy-saving equipment and low CO_2 emissions (up to 75 g/km) cars. Otherwise, the general rate of annual writing down allowance is 18% on the reducing balance, with an 8% allowance for certain categories, including cars with CO_2 emissions exceeding 130 g/km, long life assets and certain specified integral features of buildings.

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

If you are planning to invest in plant and machinery, please talk to us in advance as we can help to ensure that you receive the maximum tax benefit from your purchase.

Could you reduce your business motoring costs?

An employer-provided vehicle can be a key tool for many businesses. However, tax and national insurance payments might reduce the attractiveness of a company car.

The car benefit and car fuel benefit (where fuel for private use is provided with the car), on which you pay income tax at up to 45%, is calculated at up to 37% of the list price (car) and the same percentage on a notional £22,200 (fuel) in 2016/17.

It may well be worth carrying out a complete review of your company car policy, as year on year the percentages and therefore the taxable benefits on cars are increasing. It could prove more beneficial to pay employees for business mileage in their own vehicles at the statutory mileage rates, especially if their business mileage is high. In some cases, a company van might also be appropriate. The taxable benefit for the unrestricted use of company vans is £3,170 plus a further £598 of taxable benefit if fuel is provided by the employer for private travel.

We can help you decide on the most cost-effective way to organise your business motoring.

Developing a tax-efficient estate plan

Developing an estate plan that minimises your tax liability is essential.

Inheritance tax (IHT) is currently payable at 40% where a person's taxable estate is in excess of £325,000 (the 'nil-rate band'), and in some cases the value of assets given away up to seven years before your death can be brought back into account.

Early planning is important in order to minimise your exposure to IHT. We can help you, but here are some of the key areas to consider…

Take advantage of reliefs of up to 100%

Many IHT reliefs are available, including relief on business and agricultural property, which effectively takes most of such property outside the IHT net. Detailed conditions apply, including a two-year minimum holding period, but business and agricultural property will generally attract 100% or 50% relief.

IHT exempt transfers between spouses

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

Robert and Susan were married. Robert died in May 2008, leaving £50,000 to his more distant family but the bulk of his estate to Susan. If Susan dies in 2016/17 her estate will qualify for a nil-rate band of:

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

Other exempt transfers include:

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

Lifetime gifts

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

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

Trusts

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

Your Will

You should review your Will at regular intervals to ensure that it reflects changes in your personal and financial circumstances, is tax-efficient, and includes any specific legacies you would like to give, including tax-free donations to charity.

Looking ahead

From April 2017 an additional nil-rate band – the residence nil-rate band (RNRB) – will be introduced where a residence is passed on death to descendants such as a child or a grandchild. A step-child, adopted child or fostered child is also regarded as a direct descendant. The RNRB will initially be set at £100,000 in 2017/18, rising each year thereafter to reach £175,000 in 2020/21.

We can help you minimise the tax due on your estate and ensure the maximum amount is passed on to your loved ones, but the sooner you decide to plan, the better.

Retaining more of your profit

There are numerous ways of extracting profits from your company. However, each method has implications, not just for tax, but for your business as a whole. We can help you decide on the best strategies for both you and your company. See below for some key planning strategies.

Corporation tax is the tax due on a company's profits, while personal income tax generally applies to what is drawn out of the company by means of a salary, bonus or other form of remuneration.

Dividend versus salary/bonus

The question of whether it is better to take a salary/bonus or a dividend requires careful consideration, particularly in light of the recent changes to the dividends regime.

A dividend is paid free of national insurance contributions (NICs), whereas a salary or bonus can carry up to 25.8% in combined employer and employee contributions. However, a salary or bonus is generally tax deductible for the company, whereas dividends are not. 5 April 2017 is the last date for paying a 2016/17 dividend, and any tax on that dividend will not be due until 31 January 2018.

The dividend tax credit was abolished from 6 April 2016 and a new Dividend Tax Allowance of £5,000 a year was introduced. The new allowance 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. So £5,000 of dividends can be received without any tax being due. 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 for 2016/17. While there may still be benefits for a director-shareholder taking a dividend over a salary, the amount of tax saved has been reduced.

More ways to extract profit

You may want to consider some alternative means of extracting profit from your business, which might include:

Incorporation

Incorporation may give more scope for saving or deferring tax than operating as a self-employed person or partner.

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

Tax-free allowances

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

Pensions

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

Property

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

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

We would be happy to assist you – please contact us for advice.

My Year End Checklist

- ☐ Make the most of my 2016/17 ISA allowance
- ☐ Talk to my accountant about ways to extract profits from my business at the smallest tax cost
- ☐ Find out how the timing of dividends and bonuses could reduce my tax bill
- ☐ Carry out a review of my pension arrangements
- ☐ Put in place a tax-efficient gifting strategy
- ☐ Find out the impact of accelerating disposals into the current financial year or deferring them into the next
- ☐ Review my estate plan and my Will
- ☐ Discuss ways of improving cash flow
- ☐ Make sure I am offering tax-efficient staff remuneration packages
- ☐ Send my business and personal records to my accountant in plenty of time
- ☐ Contact my accountant regarding these and any other issues relating to my business, tax and personal financial situation.

We are here to help...

Make good use of us! This guide is designed to help you identify areas that might have a significant impact on your tax planning. Please consult us early for help in taking advantage of tax-saving opportunities. We will be delighted to assist you.

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