YEAR-END TAX GUIDE 2016/17

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Important Information

The way in which tax charges (or tax relief, as appropriate) are applied depends upon individual circumstances and may be subject to change in the future. ISA and pension eligibility depend upon individual circumstances. FCA regulation applies to certain regulated activities, products and services, but does not necessarily apply to all tax planning activities and services. This document is solely for information purposes and nothing in this document is intended to constitute advice or a recommendation. You should not make any investment decisions based upon its content. Whilst considerable care has been taken to ensure that the information contained within this document is accurate and up-to-date, no warranty is given as to the accuracy or completeness of any information.

Personal allowances and reliefs

Generally the personal allowance is £11,000. Non-savings income above the personal allowance is taxed at rates from 20% to 45%.

A higher marginal tax rate may be payable between £100,000 and £122,000 when the personal allowance is gradually withdrawn giving an effective marginal rate of 60% in this band for non-savings and also potentially savings income.

In some cases, you can transfer £1,100 of your personal allowance to your spouse or civil partner.

Taxation of savings

On 6 April 2016 a tax-free personal savings allowance (PSA) was introduced for savings income (such as interest) paid to individuals.

This means that a basic rate taxpayer is able to receive up to £1,000 of savings income, and higher rate taxpayers can receive up to £500 of savings income, without any tax being due. Tax rates from 20% to 45% apply to savings income above the available PSA. The PSA is not available to any saver with additional rate income.

Planning

- Is everyone in your family taking full advantage of their personal allowance?
- Are there opportunities to utilise any unused allowances this tax year?
- What can you do to take advantage of marginal tax rates and reduce the slice taxable at a higher rate?
- Would it be possible to consider the advantage of tax-free alternatives instead of a bonus or a salary increase?
- Is your dividend strategy as tax-efficient as it could be?
- Could you take advantage of the rent a room relief which, for individuals, is £7,500?

ISAs

Individuals who are 18 or over can invest up to £15,240 in an ISA. Growth, income and withdrawals from an ISA are free of income tax and capital gains tax, but the value of an ISA will form part of your estate for inheritance tax purposes.

A Junior ISA of up to £4,080 is available for those who are 17 or under.

ISAs are normally readily accessible (subject to scheme rules).

Help to Buy ISAs allow individuals over the age of 16 who are buying their first home to save up to £200 into an account per month. Buyers can also deposit a lump sum of up to £1,000 when they set up their account.

The money will earn interest and will also qualify for a 25% bonus (up to £3,000) from the government provided the funds are used to buy a first home.

Planning

- If you don't already have an ISA, should you start one this tax year?
- Should you use the maximum tax-free investment allowance (£15,240 per individual)?

Contact us to discuss your personal tax planning.

Pension contributions

There are limits to how much can be invested in a pension scheme before a tax charge is payable. To qualify for personal tax relief, a pension contribution must be made by or on behalf of a relevant UK individual.

Tax relief for pension contributions may be restricted by reference to net relevant earnings and the annual allowance. The annual allowance is currently £40,000 per year for those with income of less than £150,000. There is a minimum annual allowance of £10,000 per year, in most cases, for individuals with annual income of £210,000 or more. Complex rules also apply to individuals with 'threshold income' above £110,000 and, therefore, seeking pension advice is important. There is a lifetime allowance which is currently £1 million.

It is possible to carry forward any unused allowances from the previous 3 tax years.

Planning

A pension investment is many peoples' cornerstone of retirement saving as payments into a pension scheme currently attract tax relief of up to 60%.

If you are over 55, you may be able to take your tax-free lump sum or start taking pension drawdown even if you are still working.

However, those who are members of defined benefit schemes are likely to have restrictions as well as possibly costs if the pension is taken early.

There are however, other components of retirement planning:

- When might you retire and what are your income expectations?
- Should you increase your pension contributions?
- Have you reviewed both your employee and employer pension contributions when considering if you have exceeded the annual allowance?
- Have the potential inheritance tax benefits of maximising your pension fund been fully considered?

Inheritance tax

Generally, inheritance tax is due on death at a rate of 40% if the inheritance threshold of £325,000 is exceeded.

The percentage of any unused nil-rate band from the first death may be transferred to the surviving spouse or civil partner, allowing up to double the nil-rate band applicable at the date of the second death.

Gifts or transfers made within 7 years of death are also added back into the estate and are liable to inheritance tax, but may be subject to some exemptions as well as a tapered reduction for tax on transfers between years 3 and 7.

Planning

- Do you have an up-to-date will that reflects your wishes and are you happy with your choice of executors?
- Are you taking advantage of the available exemptions such as the annual £3,000 exemption, gifts out of income, and gifts on marriage or civil partnership?
- Should you consider using a Discounted Gift Trust which allows the gifting of a lump sum into a trust while retaining income for life?
- Do you have surplus assets that you can give away and reduce the value of your estate that is chargeable to inheritance tax?
- Should you consider altering the spread of your investment portfolio into more inheritance tax-efficient products?

Capital gains tax

Ordinarily, each person is entitled to make a total tax-free gain of up to £11,100 (or up to £5,550 for trusts). After this gains are taxed at a rate that is income-dependent.

Where taxable income is less than £32,001 the capital gains tax rate for gains up to the spare basic rate band allowance is 10%. Thereafter, this rises to 20%.

A higher rate of capital gains tax applies to residential property and carried interest which are taxed at a rate of 18% and 28%. The rate applicable to a trust is 20%, with the exception of the aforementioned residential property and carried interest.

For business owners entrepreneurs' relief gives rise to a lower rate of 10% for qualifying gains which provides for a maximum reduction in tax of £1 million (if the gain were £10 million, the current upper lifetime limit).

Planning

- Married couples and civil partners each have an £11,100 exemption. What tax can be saved by maximising the advantage of family member tax-free exemptions?
- Should an asset that is going to be sold in the future be transferred into joint names?
- If a gain is going to be realised are there other assets which are standing at a capital loss that can be used to reduce the quantum of your gains?
- If tax is due, are there ways of deferring or rolling over the gain?
- If you have substantial assets outside of an ISA could you arrange them to create tax-free income?
- Have you reviewed your buy-to-let portfolio to explore how you can reduce your tax liability from property income?
- Would it be beneficial to incorporate buy-to-let properties into a company?
- If you have 2 properties that you have used as a home, have you considered if your main residence election is on the property with the largest gain?

Tax credits

Individuals on low incomes may be eligible to claim tax credits or the universal credit. The calculations for these benefits involve determining 3 figures: your maximum benefit, your net income and your allowance.

The maximum benefit is the amount you would receive if you had no income at all. As some income is disregarded, it is possible that someone could receive the maximum benefit even if they have a small income.

Net income is usually earnings after tax, national insurance and pension contributions. If you have capital above a threshold this may require a notional income to be added.

The allowances are the maximum amount of income you may earn and still receive the maximum benefit. If your income is above this figure, a percentage of the excess is deducted from the maximum benefit.

Planning

Check to see if you qualify for these benefits as they can be payable to people with fairly high incomes.

As capital can be treated as income that reduces benefit, it may be sensible to give away funds or to spend them upgrading your property (as property value is not regarded as capital). However, there are rules to counter blatant examples of capital reduction.

Corporation tax

The main rate of corporation tax is 20% until 31 March 2017. From 1 April this rate reduces to 19%.

Corporation tax self-assessment requires companies to work out their own tax liability as part of their return and account for the 'self-assessed' liability to corporation tax.

Planning

Taxable profits are typically reduced by employers making pension contributions. Self-invested personal pensions (SIPPs) are popular with many company owner-directors.

Another tax reduction strategy is to bring qualifying capital expenditure forward to take advantage of the 100% annual investment allowance. The allowance is currently available on qualifying expenditure of up to £200,000.

Business deductions

Business owners are entitled to claim deductions from income for costs which are incurred wholly and exclusively in running the business.

Determining how this rule applies in practice can be a challenge. In most circumstances, a deduction may not be claimed in respect of depreciation, but deductions in the form of capital allowances are available for some expenditure on qualifying capital expenditure.

Planning

- Have you recorded all your costs?
- Directors' bonuses can be claimed as an in-year tax deductible cost so long as they are paid within 9 months after the company year-end. Pension contributions must be paid before the year-end to get tax relief in the accounting period.
- Salaries can be made to family members as long as they are justifiable and at commercial rates, along with the employer provided tax-free benefits permitted by HMRC such as the provision of a company mobile for both business and private use.
- Other ways of extracting profits include dividends (but dividends are now subject to the new dividend tax rules) and benefits in kind.

Entrepreneurs' relief

Entrepreneurs' relief provides relief for disposals by smaller business owners. It charges a reduced tax rate of 10% on disposals up to the lifetime limit of £10 million giving rise to a potential tax saving of up to £1 million.

The relief is available on material disposals of business assets which covers businesses operated as a sole trader, partnership or through a limited company.

It may not be available when a company is liquidated if the owner is involved in a similar business after the liquidation. Instead the proceeds of the liquidation may be taxed as income.

Planning

Maximising the sale value and looking carefully at the proposed sale structure helps to ensure the liability to capital taxes is not a penny more than absolutely necessary.

There are a number of planning opportunities in this area but there are also pitfalls if some shareholders do not qualify for this relief.

VAT

VAT is chargeable where taxable turnover is in excess of £83,000 in the previous 12 months or you expect this threshold will be exceeded within the next 30 days.

There are schemes which simplify VAT accounting. These include the cash accounting scheme, annual accounting scheme and the flat rate scheme.

Planning

- Would it be appropriate for you to use one of the special schemes?
- Are you claiming any VAT bad debt relief that you are entitled to?
- Are you accounting for VAT on the fuel used for private motoring using the appropriate scale charge?
- Make sure that you don't reclaim VAT on cars (unless you are a car dealer or taxi company, for example, or provide certain pool or leased cars for employees) or on entertaining UK customers.

Penalties

The penalty regime covers income tax, corporation tax, VAT and inheritance tax.

There are also penalties to cover the notification of starting a business and the filing of returns and accounts at Companies House.

Planning

Miss the first income tax return filing deadline and the next day you are liable for a £100 fine. Leave it for another 3 months and the penalty rises by £10 a day up to a maximum of £900.

After 6 months a further £300 or 5% of the tax due, whichever is the higher, is added. In some serious cases the penalty can be even higher than this.

HMRC charges late filing penalties for PAYE, VAT and corporation tax. Companies House penalty rates range from £150 for a private company filing the accounts not more than 1 month late, up to £7,500 for a public company filing accounts more than 6 months late.

Ensure that you know all of your filing and payment requirements and due dates.

Talk to us about tax planning in more detail.

Upcoming changes

Future rules, rates and allowances may affect your planning for 2016/17. Some changes from April 2017 include:

Personal allowance and threshold

The personal allowance for 2017/18 is £11,500.

The basic rate limit will be £33,500 in 2017/18. This means that individuals entitled to a full personal allowance will not be liable to higher rate tax until their total income exceeds £45,000 in 2017/18. In Scotland the proposed higher rate threshold is £43,430.

The national insurance contributions upper earnings limit will also increase to remain in line with the higher rate threshold.

Property and trading income

A £1,000 allowance for property income and a £1,000 allowance for trading income will apply from April 2017. Individuals with less than £1,000 of either source of income will no longer need to declare or pay tax on that income.

Those with income above £1,000 will be able to deduct their expenses in the usual manner or simply deduct the £1,000 allowance.

ISAs and the Lifetime ISA

A Lifetime ISA will be available for adults under the age of 40 from April 2017.

Individuals will be able to contribute up to £4,000 per annum and will receive a 25% bonus from the government.

Funds, including the bonus, can be used to purchase a first home at any time after the first annual anniversary of opening the account.

Funds may be withdrawn from the age of 60. Withdrawing the funds at other times may lead to a 25% withdrawal charge.

The overall annual ISA subscription limit increases from £15,240 to £20,000 from 6 April 2017.

Help to Save

Low income individuals will be able to save up to £50 a month into a Help to Save account and receive a 50% government bonus after 2 years.

Savers in these accounts can then choose to continue saving under the scheme for a further 2 years, bringing the maximum amount saved to £2,400 and the government bonus to £1,200.

The scheme will be open to all adults in receipt of universal credit with minimum weekly household earnings equivalent to 16 hours at the national living wage or those in receipt of working tax credits.

Class 2 national insurance

This is planned to be abolished from 6 April 2018. There will be changes to class 4 national insurance contributions to provide state pension entitlement based on class 4 payments.

Salary sacrifice schemes

The tax and employer national insurance advantages of salary sacrifice schemes will be removed from April 2017, except for arrangements relating to pensions, childcare, cycle to work schemes and ultra-low emission cars.

Arrangements in place before April 2017 will be protected until April 2018 and arrangements for cars, accommodation and school fees will be protected until April 2021.

Carry forward of losses

From April 2017, the government will proceed with restricting the amount of profit that can be offset by carried forward losses to 50%, while allowing greater flexibility over the types of profit that can be relieved by losses incurred after that date.

The restriction will be subject to a £5 million allowance for each standalone company or group.

Large groups and interest costs

New rules will come into force from 1 April 2017 to limit the tax deductions that large groups can claim for their UK interest expenses.

The rules will seek to limit deductions where:

- a group has net interest expenses of more than £2 million
- net interest expenses exceed 30% of UK taxable earnings
- the group's net interest to earnings ratio in the UK exceeds that of the worldwide group.

Pensions

From 6 April 2017 the money purchase annual allowance will reduce from £10,000 to £4,000. This is to prevent double pension tax relief being obtained when pension savings are recycled. This announcement was made in November 2016 and is still subject to government consultation which is running until 15 February 2017.

Non-UK domiciles taxation

From April 2017 non-domiciled individuals will be deemed UK domiciled for tax purposes if they have been a UK resident for 15 of the past 20 years, or if they were born in the UK with a UK domicile of origin.

Inheritance tax will be charged on UK residential property when it is held indirectly by a non-domiciled individual through an offshore structure, such as a trust or a company.

The government will make it easier for non-domiciled individuals who are taxed on the remittance basis to bring offshore money into the UK to invest in UK businesses and to claim business investment relief.

Get in touch to see how we can help.

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