UK year end tax planning: the essential guide

The end of the 2016-17 tax year is rapidly approaching so take some time to review some of the matters that may be relevant to you and your business – it could save you time and money.

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> The hardest thing in the world to understand is income taxes
>
> Albert Einstein
> Physicist / Scientist

INTRODUCTION

This guide highlights actions you may wish to take in the UK tax year ending 5 April 2017. Not all of the sections will be relevant to you but, where a suggestion is of interest, please contact us for specific tax advice.

INCOME TAX

Personal income over £150,000 is taxed at 45%. However, as your personal allowance is phased out where your income is between £100,001 and £122,000, this can result in an effective tax rate of 60%.

Individuals with income near these thresholds can reduce their tax liabilities by reducing their income below £100,000 or £150,000.

Spouse/Civil Partner

If a spouse or civil partner does not have sufficient income to utilise their personal allowance (£11,000 for 2016/17) or their basic/higher rate tax bands, the higher earning spouse or civil partner may gift income-producing assets to them.

Gift Aid

Donations under Gift Aid and Pension contributions extend the basic rate tax band and attract tax relief at higher rates.

ISAs

Savers have until 5 April 2017 to use their annual ISA limit of £15,240. This can be split however you choose between cash and permitted investments, such as stocks and shares.

Personal Savings Allowance

A personal savings allowance was introduced on 6 April 2016 of £1,000 for basic rate tax payers and £500 for higher rate tax payers.

Dividends

New rates of tax for dividends came into effect for dividends received on or after 6 April 2016. A new dividend nil rate band of £5,000 is available for all taxpayers. Thereafter any dividends falling within the basic rate band are taxed at 7.5%, 32.5% for dividends falling within the higher rate band and 38.1% for dividends falling within the additional rate band. The nil rate band may reduce to £2,000 as announced in the Budget on 8th March 2017.

TAX CHANGES ON RESIDENTIAL PROPERTY HELD BY INDIVIDUALS

CLAIMS

Ensure all Principal Private Residence (PPR) claims are up to date. Consider jointly owning property where there is no PPR election to benefit from two annual exemptions and/or lower rates of Capital Gains Tax (CGT) when the property is sold.

Landlords can only claim the actual amounts spent on replacing furnishings during the year – ensure you keep a record of all relevant expenses, so that they can be offset against profits or increase the loss to carry forward.

LETTINGS

If your let property has significant equity, consider increasing your borrowing against the property. Before 6 April 2017, relief is given by deducting the interest from the letting profit – giving effective tax relief at the owner's top rate of tax. From 6 April 2017 onwards, this relief will be cut back. From April 2020, relief on the interest will be limited to the basic rate of tax. Investing the capital released into an asset that produces a tax free return or a capital only return, could increase the net return from both assets over a period of years.

PENSIONS

- Ensure contributions leave the bank account within the tax year in order to claim relief.
- The maximum pension contribution for a UK resident non-earner is £2,880 net (grossed up to £3,600). Therefore, consider contributing to a pension for a non-working spouse/civil partner or children to benefit from additional tax relief.
- If you are considering making pensions savings in excess of £40,000 you will need to work out your contributions in terms of your deemed Annual Allowances for the last three years in order to work out the maximum relief available to you. Review the availability of unused allowance for the previous tax years.
- From April 2016 the lifetime allowance was reduced to £1m. The annual allowance was also tapered for individuals with income in excess of £150,000, reducing to a minimum of £10,000.

CAPITAL GAINS TAX (CGT)

Consider the use of gifts by 5 April 2017 to use up your annual exemption of £11,100. If you do not use the annual exemption it cannot be carried forward and is lost. Consider realising capital gains so it is fully utilised.

Gift assets to your spouse or civil partner so that they are able to utilise their CGT annual exemption.

> A good advisor can save you significant amounts using straightforward planning and tax breaks.

Where you expect to realise a significant capital gain, consider delaying the disposal until after 5 April 2017 - this will defer the date by which the tax is due by 12 months.

Note that under the 'bed and breakfasting' rule (selling some shares and then buying the same shares within 30 days) there is no crystallisation of gains or losses and therefore this is ineffective for tax.

Entrepreneurs' Relief locks in a 10% rate of CGT on qualifying disposals, subject to a lifetime allowance of £10 million.

Sheltering capital gains and income tax relief

- Venture Capital Trust (VCT) relief is available at 30% on a VCT investment up to £200,000. In addition, VCT dividends are tax free and the investment can be sold tax free after 5 years.
- Investment in an Enterprise Investment Scheme (EIS) company provides income tax relief at 30%.
- Investment in a Seed Enterprise Investment Scheme (SEIS) company can be up to £100,000 per year and provides income tax relief at 50% of the cost of the shares.

UK TAX PLANNING FOR FOREIGN DOMICILIARIES

If you were non-UK resident for 2015/16 or left the UK in 2015/16, you will need to ensure all the non-residency criteria remain satisfied to continue this status in 2016/17.

If you are UK resident but not UK domicile, consider whether it is worth being taxed on the remittance basis. Remittance basis does lead to the loss of personal allowances but avoids a hefty annual charge; £30,000 for those resident 7 years or more, £60,000 for 12 years or more and £90,000 for those resident at least 17 years.

Consider setting up a UK company and using Business Investment Relief as a means of sheltering unlimited remittances from UK taxes.

Statutory Residency Test

If you have been outside the UK for some time and are classed as a non-UK resident, keep an eye on your visits to the UK. The statutory residency test means you can be resident if you have visited the UK for as little as 16 days depending on other factors.

If you consider your permanent home to be elsewhere but live in the UK i.e. you are a non-domiciled individual, UK rules currently ask you to pay tax on your offshore income when you remit it to the UK. From April 2017, permanent non-domicile status will be abolished. Anyone who has been in the UK for 15 out of the past 20 years will be considered UK domiciled for tax purposes and can only be taxed on the arising basis.

Individuals becoming deemed domicile may be able to rebase overseas assets for CGT purposes, this will prevent any increase in value arising before April 2017 from being subject to UK CGT.

From 6 April 2017 an individual will be deemed UK domicile where they have been UK resident for 15 out of the last 20 years.

CAPITAL ALLOWANCES

Watch out for timings of expenditure and, for unincorporated businesses, the effect of the cap on unlimited income tax reliefs.
Note that the Annual Investment Allowance reduced to £200,000 on 1 January 2016.

INHERITANCE TAX PLANNING

Each individual can make gifts of up to £3,000 in total each year without any Inheritance Tax (IHT) implications.

If the £3,000 exemption was unused in the previous tax year, the exemption can be carried forward so the maximum available exemption can be up to £6,000. You can use up the £250 allowance for small gifts to individuals. By making a gift now, in seven years it falls out of the IHT charge.

Is it time to start making regular gifts out of income for IHT purposes? If so, document the gifts in writing.

LOOKING AHEAD

There are a number of new measures being introduced which could affect you including:

- Additional tax free allowances covering the first £1,000 of property and trading income are set to be introduced from 6 April 2017.
- Investors' Relief has been introduced which will give a reduced rate of 10% on qualifying gains. This should be considered with the Enterprise Investment Scheme (EIS) when making new investments.
- Provisions are being made to bring the taxation of overseas pensions more in line with that of UK pensions, including the removal of the current 10% exemption.
- If you are non-UK domiciled and intend to leave the UK during 2017/18, start planning now to minimise the number of ties you have with the UK and plan your days here to be regarded as non-resident.

F&L's tax team is comprised of specialists in personal, expatriate, corporate and international taxation.

Together, Kiki Stannard and Carla Graves have over 30 years' experience helping individuals maximise their tax position, calculate risk and minimise cost. Contact them to find out how they can help you:

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