# YEAR END tax planning 2014/15

TIFFIN GREEN

# Income tax saving for couples

**You might be able to save tax by switching income from one spouse or partner to the other.**

From the start of the next tax year, you should aim to use up both individuals' personal allowances (£10,000 in 2014/15 and £10,600 in 2015/16) and minimise any higher and additional rate tax.

Income over £150,000 is taxed at 45%, and the personal allowance is withdrawn where income (less certain deductions) is more than £100,000. You and your partner could reorganise your financial affairs to avoid exceeding one of these limits. However, there might be capital gains tax (CGT) to pay on switching ownership of an investment if you are not married or in a civil partnership. If you or your partner have little or no earnings or pension income, you could benefit from a 0% tax rate on up to £5,000 of savings income in 2015/16. You may be able to shift assets between you to maximise the benefit of this new tax band. From 6 April 2015, savers can register to receive interest without tax deducted if they are unlikely to have to pay tax on their savings income, even if some tax is payable on non-savings income.

### Child benefit

Child benefit is withdrawn where either partner has income of £50,000 or more. Withdrawal is total if income is over £60,000, and partial for income between £50,000 and £60,000. You may be able to keep some or all of your child benefit by switching income between yourselves, or by taking other steps to bring your income below one of these limits.

### Partner's salary

If you are in business, you could pay a non-earning partner a salary, on which you will get tax relief. You normally have to keep PAYE records even if the salary is below the national insurance contributions (NICs) limit, which is £481 a month in 2014/15. If, however, the salary is between £482 and £663 a month, your partner will avoid paying any NICs, but will still qualify for state benefits, such as a pension. In particular, your partner's benefits under the state second pension will accrue at a flat rate of £92 a year. (A minimum yearly income of £5,772 is needed to accrue state second pension in 2014/15. If your spouse will reach state pension age after 5 April 2016, the start date of the single-tier state pension, they may not benefit from accruing further state second pension benefits, depending on their NIC record).

You can also pay an employer's contribution to your partner's personal pension plan. There is no tax or NICs on the payment itself, and it should be an allowable business expense. Be warned that the total value of your partner's salary, benefits and pension contributions must be justifiable in relation to the work performed.


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# Directors and employees

**Income over £150,000 is taxed at 45% (37.5% on dividends). You could avoid these additional rates by delaying a bonus or dividend until 2015/16 if your income will fall below £150,000 in that year. If your income is less than £150,000 this year but is expected to exceed that figure next year, you could bring forward income into 2014/15 to avoid the additional rate next year.**

You can use a similar strategy to keep your income below the level at which you would lose your personal allowance. Or you could sacrifice salary to bring your income below any of the thresholds in exchange for a tax-free employer's pension contribution.

If you are going to work abroad for over a year, it may help to leave the UK before 6 April 2015. You need to be away for a whole tax year for the income from working abroad to be free of UK tax. You will also have to meet the requirements of the statutory residence test, so advice is important.

This is a good time to review whether a company car is worth having, as the tax on almost all cars, including electric cars, will increase in 2015/16 and, for non-diesel cars, again in 2016/17. Switching to a company car with very low $CO_2$ emissions will save you and your company tax and NICs, and reduce other costs.

If your business is affected by the personal service company rules (IR35), it is important to calculate how much salary to draw before 6 April 2015 to avoid being taxed on a 'deemed payment'. If you hold share options, you should look at the tax as well as the investment issues in deciding when to exercise them.

### Dividends

You should consider paying a dividend before 6 April 2015 if you operate your business as a company in which you and your partner both have shares. This will be beneficial if the gross income (the dividend plus the tax credit) will fall into the basic rate band this year for one or both of you, or if at least one of you expects to pay tax at the additional rate next year but not this year. You could even give shares to your spouse or civil partner shortly before paying a dividend, provided you genuinely transfer ownership. Try to leave as much time as possible between the gift and the subsequent dividend payment.

### Self-employed people

You could affect the timing of your taxable profits to avoid paying tax at 45% if you are self-employed, but this will depend on your accounting date. You can get immediate tax relief on the first £500,000 a year spent on most types of equipment, and also many fixtures forming part of a building, up to 31 December 2015. Whether this expenditure is made before or after your accounting date may affect the tax rate on your profits. The same goes for the disposal of cars and other equipment.

Finally, you may be paying excess NICs if either you or your partner are both employed and self-employed. You can defer some NICs, but you should normally apply for deferment in 2015/16 no later than 5 April 2015. HMRC will also accept an application for 2014/15 if it is received by 5 April 2015.

**PLANNING POINT – With falling corporation tax rates (20% for all companies from 1 April 2015) and high NICs, incorporating your business and then taking dividends instead of more salary could produce a significant saving for higher and additional rate taxpayers.**

# Capital gains tax planning

**Everyone has an annual capital gains tax exempt amount, which in 2014/15 makes the first £11,000 of gains free of tax.**

Gains above the exempt amount are taxed at 18% where taxable gains and income are less than the basic rate limit of £31,865 in 2014/15 and £31,785 in 2015/16. The rate is 28% on gains that exceed this limit.

You should generally aim to use your annual exempt amount by making disposals before 6 April 2015. If you have already made gains of more than £11,000 in this tax year, you might be able to dispose of investments standing at a loss to create a tax loss that can be set against the gains. If your disposals so far this tax year have resulted in a net loss, the decision whether to dispose of investments to realise gains before 6 April 2015 will depend on the amounts involved. Depending on your level of income, timing your disposals either before or after the end of the tax year could result in more of your gains being taxed at 18% rather than at 28%.

You might be able to save CGT by transferring assets between married couples or civil partners before their disposal. This could save tax where one partner has an unused annual exempt amount, has not fully used their basic rate tax band, or has capital losses available. You should generally leave as much time as possible between the transfer of the assets and their subsequent sale.

Non-residents who own or are planning to buy UK residential property should consider that CGT is likely to be charged on any increase in the property's value from 6 April 2015 onwards.

CGT is payable on 31 January after the end of the tax year in which you make the disposal. You could delay a major sale until after 5 April 2015 to give yourself an extra 12 months before you have to pay the tax. Shares or assets you own might have become virtually worthless. If so, you can claim the loss against your capital gains without actually disposing of the asset by making a negligible value claim. You can backdate the loss relief to either of the two tax years before the one in which you make the claim, provided that in the earlier year you owned the asset and it was already of negligible value. 5 April 2015 is the time limit for backdating a claim to 2012/13.

# Pension tax planning

**Tax relief on a pension contribution is at least 20%. Effective relief can be as high as 60% where the personal allowance is being withdrawn, and can be even higher where tax credits are being withdrawn.**

Pension funds are broadly free of UK tax on their capital gains and investment income. When you take the benefits, up to a quarter of the fund is normally tax free, but the pension income will be taxable. From 6 April 2015 most people aged 55 and over will be able to draw their pension savings flexibly. Withdrawals above the tax-free amount will be liable to income tax at your marginal rate. Accessing pension savings will generally have a long-term effect on your financial position, so seek advice.

### Lifetime allowance

The maximum you can hold in a tax-favoured pension scheme is £1.25 million in 2014/15 and 2015/16.

### Contributions

The annual limit on pension contributions that qualify for tax relief is £40,000. The limit was £50,000 for the three years to 5 April 2014. However, you can carry forward unused annual allowances for up to three years to offset against a contribution of more than the annual limit. For people drawing a flexible income from a pension, the annual allowance will be £10,000 from 6 April 2015.

- You can pay up to the whole of your earnings into a pension scheme, but the tax relief is capped by the annual allowance of £40,000 plus any unused allowances brought forward.

- You don’t need earnings to contribute up to £3,600 to a personal pension, so you could set up a pension for your partner or children. This would mean that even if they do not pay any tax they can still benefit from 20% tax relief.

- If you are a higher or additional rate taxpayer, you will get tax relief at 40% or 45% for your pension contributions. Limiting your contributions to amounts that qualify for at least 40% tax relief will give you the most benefit.

- Pension payments can, in effect, attract higher rates of relief in some circumstances (for example, if they stop you from losing your child benefit, working tax credits or personal allowance), or result in some of your dividends no longer being subject to higher rate tax.

**PLANNING POINT – With further rises in the state pension age on the cards, low annuity rates and the reduced lifetime limit, you should keep your retirement savings plans under review to ensure you will have enough income for your needs.**

# Tax-efficient investments

**Some investments have income tax and CGT advantages.**

### Individual savings accounts

You can invest in one cash individual saving account (ISA) and one stocks and shares ISA in each tax year. The maximum investment is £15,000 in 2014/15. You can invest this in one type of account or split it between the two. The annual limits are increased in line with inflation each year.

ISAs are free of UK tax on investment income and capital gains although, as with other investments, it is not possible to reclaim the tax credits on dividends. Remember that 16 and 17-year olds can open a cash ISA, but you cannot open an ISA for your own children. Parents and others can contribute to a junior ISA for children up to 18 who do not have a child trust fund. The contribution limit is £4,000 in 2014/15. Funds are locked in until the child is 18.


### Enterprise investment scheme

The enterprise investment scheme (EIS) gives tax relief for investing in new shares in relatively small qualifying trading companies that are not listed on any stock exchange.

- Income tax relief is given at 30% on up to £1 million invested in 2014/15.
- Gains on those shares escape CGT after three years.
- It is possible to defer CGT on a gain of any size, on the disposal of any asset, by reinvesting the gain in shares that qualify under the EIS. An EIS investment can be used to defer gains made up to three years earlier.

### Seed enterprise investment scheme (SEIS)

This allows individuals to get 50% income tax relief on investments of up to £100,000 a year in start-up companies. In addition, potentially half the investment can be matched with gains arising on the disposal of assets in 2014/15, giving total tax relief of up to 64% (50% income tax relief plus 14% CGT relief – half of the higher CGT rate of 28%). Through not using up your £100,000 limit in 2013/14, an investment made during 2014/15 can also be carried back and relieved as if you had made it in the previous year.

### Venture capital trusts

You can obtain income tax relief of 30% by subscribing up to £200,000 for shares in venture capital trusts (VCTs) in 2014/15. Gains are generally exempt from CGT. VCTs are investment trusts that invest in a range of relatively small trading companies.

Remember EIS and SEIS shares and VCTs are high-risk investments and so may be difficult to sell.

**PLANNING POINT – Some other assets, such as classic cars and fine wines, are exempt from CGT, though perhaps more suitable for adventurous investors.**

# Inheritance tax planning

**Inheritance tax (IHT) is payable if a person's assets at death, plus gifts made in the seven years before death, add up to more than the nil rate band, currently (and until 2017/18) £325,000.**

When a surviving spouse or civil partner dies, their estate will benefit from any unused IHT nil rate band of their previously deceased spouse or partner. The transferred proportion is uplifted to the same fraction of the nil rate band in force at the date of the second death. However the maximum transfer is £325,000.

Most IHT planning is not related to the tax year end, though this is as good a time as any to review your will. There are a number of reliefs and exemptions, some of which are related to the tax year.

- Gifts totalling up to £3,000 in a tax year are exempt from IHT. If you made no gifts to use this exemption in 2013/14, you can make IHT-free gifts of up to £6,000 before 6 April 2015. If you have already used your exemption for 2014/15, you could delay your next gift until after 5 April 2015 to take advantage of the 2015/16 exemption.


- Regular gifts out of excess income can also be exempt. You need careful documentation to prove that you make the gifts from income rather than capital.

- If IHT planning in the past has left you liable to income tax on 'pre-owned' assets, consider whether you could save money by paying something for the benefit you receive – for example, rent on a property previously given away but which you continue to live in. This is a complicated area of tax and you should obtain specialist advice.

**PLANNING POINT – You could reduce future IHT by investing in business assets that benefit from 100% IHT relief once you have held them for two years. They include shares listed on the Alternative Investment Market.**

# Charitable giving

**You can receive tax relief for any gifts to charity if you make a gift aid declaration.**

You make the gift out of your taxed income and the charity benefits by claiming back basic rate tax on the value of the gift. Higher and additional rate taxpayers can claim an extra 20% or 25% in relief.

- You can elect for donations made in 2014/15 to be treated for tax purposes as if you had made them in 2013/14. This will benefit you if you paid tax at a higher rate in 2013/14 than in 2014/15. The election must be made in writing at the same time as, or before, filing your 2013/14 tax return and this must not be later than 31 January 2015.

- You can obtain both income tax and capital gains tax relief on gifts to charities of shares listed on the stock market and certain other investments.

- Gifts to charity are free of IHT, so remembering a charity in your will can reduce the total amount of IHT that will be paid on your estate.

## ✔ CHECKLIST

- ✔ **If you are aged over 55, have you taken advice about the options for drawing your pension savings?**
- ✔ **Have you considered the timing of dividends or bonuses to minimise additional rate tax at 45%?**
- ✔ **Have you used this year's ISA allowance and made any investments in EISs, SEISs and VCTs before 6 April 2015?**
- ✔ **Could you exempt half of this year's or last year's capital gains by reinvesting the gains in a SEIS?**
- ✔ **Could you transfer income to your partner to minimise higher and additional rate taxation next year, or to avoid losing child benefit?**
- ✔ **Have you used your annual CGT exempt amount by making any available disposals before 6 April 2015?**
- ✔ **Have you used your annual inheritance tax allowances?**
- ✔ **Are you investing enough in your pension if you wish to, or have to, retire earlier than state pension age, which is likely to keep going up?**