Year End Tax Planning 2015/16

5 April 2016 marks the end of the 2015/16 tax year.

Here are some ideas to ensure that you are minimising your tax liabilities by maximising your reliefs and exemptions.

Please ensure that you take advice before acting. This leaflet is general advice only and is necessarily simplified. Tax legislation is subject to change.

IMPORTANT CHANGES AHEAD

Dividends

The tax rate on dividends is increasing from 6 April 2016 and this will be a particular issue for business owners. Currently the effective tax rates on net dividend income are 0%, 25% or 30.6% depending on whether you are a basic rate, higher rate (40%) or additional rate (45%) taxpayer. After 5 April, the first £5,000 of dividend income for individuals will be tax free, and any dividend income over and above this limit will be taxed at 7.5%, 32.5% or 38.1% depending on the band it falls into. Business owners should consider whether there is an opportunity to bring forward dividends that would otherwise be paid after 5 April 2016, and clients with investment portfolios may wish to investigate whether changes can be made to the structure of the portfolio and whether transfers of assets between husband and wife may make better use of the £5,000 tax free allowance.

Stamp Duty Land Tax Increases

Stamp duty land tax (SDLT) on the acquisition of a second property will attract an additional 3% stamp duty after 31 March. This will affect buy to let landlords and the purchase of holiday homes. It is necessary to complete the transaction by 31 March 2016 if contracts were exchanged after 25 November 2015.

This will also affect transfers of residential property to a company where, for example, it has been decided to incorporate a buy to let business. It is therefore important to ensure that any such transactions are dealt with as soon as possible, and certainly before the end of March. Note that this was subject to consultation, with the final rules to be announced in the Budget on 16 March.

Pensions

The maximum amount that can be contributed to a pension scheme by individuals earning over £150,000 (or certain employees earning over £110,000) is reducing from 6 April 2016. The maximum annual amount currently is £40,000, and this is being scaled back for these individuals by £1 for every £2 of income over the limits, down to a reduced maximum allowance of £10,000. For these taxpayers there is an opportunity to make a one off payment before 6 April and obtain full tax relief.

If you have a large pension pot you will also need to think about whether you should elect for fixed protection which will lock in the lifetime allowance to £1.25m as this is due to fall to £1m in the next tax year.

Company Liquidations

Tax changes have been brought in which will affect the tax treatment of distributions on the winding up of a company. The general rule is that such distributions are treated as capital and chargeable to capital gains tax. However distributions made after 5 April 2016 can be treated as income under certain circumstances.

Income Tax

- Are you and your spouse using your personal allowance and lower rate bands in full? Transfers of assets between spouses and civil partners are tax free and can help to reduce the overall tax burden.
- Are you affected by the withdrawal of child benefit where income exceeds £50,000? Can you mitigate the impact by pension contributions or gift aid?
- Gift aided charitable payments qualify for higher rate tax relief and the charity can reclaim the basic rate.
- Transfers of quoted shares and land to charities qualify for full relief against income and are exempt from capital gains. Such transfers have to be done in the same tax year as you wish to claim the relief.

OTHER MATTERS

• Is your income around any of the key thresholds or bands? These are £42,385 (higher rate tax), £50,000 - £60,000 (child benefit withdrawal), £100,000 - £121,200 (withdrawal of personal allowances) or £150,000 (additional rate tax). If so, consider the timing of income and tax deductible expenditure where possible.

• Is your income likely to be significantly less in 2015/16 than in the previous year? If so, you can apply to reduce your payments on account. This can help cashflow.

Capital Gains Tax (CGT)

- Have you utilised your annual exemption of • £11,100 for gains made in the year? It can't be carried forward.
- Are you likely to make significant gains this
  year? If so, talk to your usual contact to discuss
  if there are any ways to mitigate the tax. •
- If you have assets (perhaps shares) that have become worthless, you can make a claim for
  the loss which can be set off against other
  gains or carried forward indefinitely. In certain circumstances the loss can be claimed • against your other income.
- Can you defer a sale until after 5 April to postpone the date of payment of the tax for a further 12 months?

Consider the timing of gains carefully if your income will change significantly between tax years as gains are taxed as the top slice of your income and charged at either 18%, 28% or a combination of both.

Gains can be mitigated by reinvestment in SEIS shares - shares in very small companies - if held for three years. Gains can also be deferred by investing in companies that qualify under the Enterprise Investment Scheme.

If you have bought a second home within the last two years, have you made a main residence election? This is very important as once made it can be varied at a later date.

Investments

- Ensure you use your £15,240 ISA allowance • this year.
- Up to £4,080 this year can be invested in a junior ISA for children who do not have a child trust fund. This can be invested by anyone (not just parents) on behalf of a child.
- Help to Buy ISAs are now available. The government will add 25% tax free to the ISA balance when it is used for a deposit. The maximum bonus is £3,000 and they are only available between 01/12/2015 and 01/12/2019.
- You can invest up to £2,880 net (£3,600 gross) in a pension without any relevant earnings. This can be a great way of parents saving for their children.

  Should you require further information, please speak to your advisor.

Investing in EIS shares gives you income tax relief at 30% on up to £1m invested. After three years any gain on sale is free of CGT and free of IHT after two years. Capital gains can also be deferred giving up to 58% tax relief on your investment. Investment in SEIS shares gives 50% income tax relief and relief against capital gains.

• Investing in VCTs is similar. Income tax relief
of 30% is available on investments up to £200,000. After five years any gain is free of CGT and all income is tax free. These can be useful as an alternative to investing in pension funds where the maximum has been reached.

Inheritance Tax (IHT)

It is extremely important to have a current, valid, up-to-date will. Marriage, divorce and material changes in assets held should all prompt a consideration of your will.

Useful exemptions are set out below:-

- £3,000 per donor per year.
- £250 for small gifts.
- Giving away surplus income on a regular basis is entirely tax free.
- Consider making gifts while asset values are low, though beware of any CGT liability. After seven years gifts are no longer subject to IHT.
- IHT efficient investments or financial products are available which can substantially reduce your IHT exposure.
- Business assets qualify for 100% relief from IHT, normally after a two year ownership period.
- Let agricultural land and buildings (including farmhouses and cottages) can also have favoured status for IHT.
- Consider leaving gifts to charity. If 10% of your chargeable estate is left to charity, your IHT rate will be 36%.
- The new residence nil rate band which is being introduced from 6 April 2017 is adding further complexity to the IHT rules. Seek advice regarding whether you are

eligible for this and if not what can be done to enable you qualify. Your will may need a review to make sure your executors can claim it.

- Setting up lifetime trusts can still be a useful IHT planning tool.

Business Owners

- Entrepreneurs' Relief is extremely valuable so it is worth making sure you qualify. This gives a 10% tax rate on gains up to £10m.
- The annual investment allowance has fallen to £200,000 from 01/01/2016 (down from £500,000). Make sure you time your capital investment so you are able to make maximum use of the relief.
- Significant tax breaks are available for low emissions vehicles for both employees and employers.
- EMI options are a very attractive way of providing incentives to your employees.
- Consider a large dividend pre-tax year end to mitigate the increase in dividend tax.
- Consider additional employer pension contributions before the restrictions in relief come in from 6 April.