YEAR END TAX PLANNING - 5TH APRIL TAX CONSIDERATIONS

Before we know it, the end of the current tax year looms again. With only a short period of time before the new tax year, it is important that you take a look at your current tax position to see if any action should be ***taken by 5th April*** to reduce your tax bill. There are also a number of other matters that, whilst a decision is not required prior to 6th April, nevertheless should be considered sooner rather than later. Listed below are a number of the more important areas to consider. Please contact us as soon as possible if you think any of the items listed apply to you or if you require further information.

COMPANY CARS

You need to consider two points when it comes to your company car:

1. Is it better to claim mileage and pay the cost of motoring yourself?
   If you do buy a car through the company, think about buying a company car with lower CO2 emissions. Taxation on company cars revolves around the CO2 emissions of the car: the higher the emission, the more tax you pay. We can help, or use the calculator on our website.

2. The calculations can be complex as they involve not only the car itself but also the possible reimbursement of fuel for business mileage. We can assist you with this calculation.

A van or 4-door 'pickup' might suit you better and is more tax efficient (yes, we have a flyer on this!) if you are likely to buy a new car, don't be an 'April Fool': Road Tax (vehicle excise duty) goes up very considerably for vehicles newly registered after 1 April.

ON THE VERGE

Taxpayers should take a look at their income to see if it is close to the higher tax allowances. If your income exceeds £43,000.00, you are into higher rate tax. At over £100,000 they start to take personal allowances away. We can help consider ways of reducing your taxable income to avoid this situation.

CAPITAL GAINS

Five points should be considered in relation to reducing any potential capital gains tax:

1. If you have made any capital gains during the current tax year, see if you have any unrealised capital losses. If you crystalise the losses by selling assets during the same year they can be off-set against your capital profits.

2. Although it will not save you tax, you can defer any capital gains by realising gains after the end of the current tax year. This will delay the payment of any capital gains tax for a further 12 months or more.

3. Utilise the capital gains tax annual exemption which, for 2016/17, is £11,100.

4. Consider transferring assets between spouses. Such transfers do not create a chargeable gain or loss and you may save tax if any gains payable on a disposal are made by the spouse with a lower marginal rate of tax, or with unutilised allowances.

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5. If you are married or in a civil partnership consider one spouse selling shares to maximize annual exemption and then the other immediately buying the same number of shares.

6. Consider realising losses (certainly on investments) which you can carry forward indefinitely, possibly saving significant sums on future disposals.

7. Selling shares and then buy back with an ISA to utilise the annual exemption.

8. Consider Tax sheltering investments, such as EIS investments where £1 invested can save 58p.

INHERITANCE TAX

Many people do not realise that they may have to pay inheritance tax when they die as they assume that this tax will only affect the wealthy. This may not be the case, especially as probably your most expensive asset, your house, is included in your estate. The £1 million house allowance is something of a 'con' even after it eventually takes full effect several years hence.

The threshold is £325,000 with unused relief going to the surviving spouse, so a married couple is effectively allowed £650,000, after that it's 40%. There are plenty of ways to avoid this, so that it is sometimes called a 'voluntary tax' - are you volunteering?

Four points should be considered:

1. Make use of the allowances where no inheritance tax will be payable. These will be the annual exemption (£3,000 a year each plus another £3,000 if unclaimed last year), the small gifts allowance and any gifts made in consideration of marriage.

2. Consider gifting any available assets to your relatives or others. The greater the period of time between the giving of the gift and your death will mean less inheritance tax is payable. This is, of course, an emotive subject and any decisions will depend on your personal circumstances. Remember, don't give away more than you can afford. For those clients with larger estates, the possibility of setting up trusts should be considered. (You may need to consider the interface between Capital Gains and IHT as avoiding both may not be possible).

3. Some investments are IHT exempt, or get favourable treatment, as do qualifying business assets.

4. Trusts, while potentially complex, may sometimes offer a way of saving IHT, and there are a lot of off the shelf products from leading insurance companies that can potentially achieve this safely and cheaply.

PERSONAL ALLOWANCES

Everyone is entitled to personal allowances (including children) which are deducted from income in establishing how much tax you have to pay. If you do not use your personal allowances in one tax year, they are lost as they cannot be carried forward to the next tax year. It is therefore important that you utilise any unused personal allowances. This could be achieved by transferring income between spouses, but be careful if you wish to do this by paying your spouse a salary from your business. This is acceptable, provided it is a justifiable salary in the eyes of the taxman and actually paid (ask for our flyer 'employing family members'). You can now transfer just over £1,000 of unused personal allowances between spouses as a partial alternative.

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The first £1,000 on interest will be tax-free, and this alters the dynamics of saving and particularly of cash ISAs considerably.

WHOLESOME AVOIDANCE

Of course if you really want to save tax try an 'AIM ISA' - NO Income Tax, NO Capital Gain Tax, NO Inheritance Tax, No TAX! Of course with an EIS you can arguably have negative Income Tax, NO Capital Gain Tax and possibly avoid Inheritance Tax….. all HMRC approved.

DIVIDEND OR SALARY?

Normally you can save tax and/or national insurance contributions by paying yourself a dividend from your company instead of a salary (or a bonus). In addition, many individuals have paid their spouse a dividend from their company in order to make use of the lower tax rates of the spouse. There is no doubt that in certain situations the dividend route can be more tax efficient than paying a salary. We can calculate the potential savings but please make sure you consult us in advance of carrying out any such transactions. Changes in the taxation of dividends have increased the notional 'break even' of being incorporated from, say £25,000 profit to around £30,000. Ask for our flyer on the subject (Self employed clients are advised to assess the cost/ benefits of becoming limited, we can do this free if you ask us nicely!)

PENSIONS

Take a look at your current pension scheme. Investing in a pension is still highly tax efficient (including for many pensioners) but, in view of the volatility in stock markets recently it is important that you choose the right pension scheme. Given that funds are accessible from 55, the advantages of personal contribution seem incomparable.

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