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Year End Personal Tax Planner

Saving Tax For The Year Ending 5 April 2015

With the end of the current tax year rapidly approaching, there remain opportunities to mitigate your 2014/15 tax liabilities. The following headings seek to identify the various means by which a saving may be achieved. These notes are written in general terms in order to be of the widest possible use, and it is important therefore that specific advice is sought in relation to your own individual circumstances.

Please approach your usual Butler & Co contact or Trevor Dommett (Trevor@butler-co.co.uk) should you require further information. For investment advice, we always recommend that your particular circumstances are examined by an Independent Financial Adviser, and we will be happy to provide a recommendation should you require assistance of this nature.

Individual Savings Accounts ("ISAs")

Individuals can invest a maximum of £15,000, of which £5,940 can be cash. ISAs are free of income tax and capital gains tax, but please note that transitional rules may apply in respect of payments that were made after the limit increased from £11,880 on 1 July 2014.

Enterprise Investment Scheme ("EIS")

Income tax relief at 30% is available where an investor subscribes for shares in a company, and both the investor and the company meet several qualifying conditions. The maximum investment qualifying for relief is £1 million. Capital gains on the realisation of the EIS investment are tax free providing that the shares are held for a minimum of three years.

It is also possible to defer capital gains tax by making an investment in EIS shares. The investment must be made within a period of one year immediately preceding or three years immediately following the date on which the capital gain is realised.

Seed Enterprise Investment Scheme ("SEIS")

This is a tax advantaged venture capital scheme, similar to EIS in many of its scheme rules. It focuses on smaller early stage companies carrying on or preparing for a new business in a qualifying trade.

Income tax relief at 50% is available to an investor on the amount he subscribes for shares, subject to an overall investment limit of £100,000.
Capital gains tax reliefs operate on broadly the same principles as those for EIS. Shares must be held for a minimum of three years to avoid the withdrawal of reliefs obtained.

Venture Capital Trusts ("VCTs")

A VCT is basically a close ended quoted investment vehicle which looks to invest in small unquoted trading companies. 30% income tax relief can be claimed up to a maximum investment of £200,000 when you subscribe for shares in a VCT.

Dividends and capital gains from the VCT are tax free provided that the VCT is held for five years.

Pension Contributions

Pension contributions made by individuals attract tax relief subject to the following limits:-

A) £3,600 for individuals with no earnings or earnings up to £3,600 per annum;

B) The individual's relevant earnings up to a maximum of £40,000 per annum.

The overall lifetime allowance for an individual's pension fund for 2014/15 is £1.25m.

Tax relief is available at an individual's marginal rate of tax, and there is the availability to carry forward unused allowances for three earlier years (subject to limits and conditions). There are significant implications for high earners due to the legislation currently in place, and in the event that you have not already done so, we recommend that you review your 2014/15 position at the earliest opportunity, and certainly before 5 April 2015.

Pension planning can be particularly effective where total income is expected to exceed £100,000, leading to a loss of all or part of the 2014/15 personal allowance. Effective planning can reduce income and preserve the personal allowance.

Charitable Giving

Higher rate tax relief can be obtained on Gift Aid donations and charitable Deeds of Covenant. Where total income is expected to exceed £100,000, charitable giving can be used to preserve the personal allowance.

Sharing Income

The transfer of income producing assets from one family member to another can result in family income being spread between those members, so that as few as possible face a reduction or withdrawal of their personal allowance.
In addition to preserving personal allowances, income producing assets can be transferred in order to maximise the tax rate bands.

For example, if one spouse faces a 40% or 45% marginal tax rate and the other is a basic rate taxpayer, there is potential for a 20% or 25% tax saving to be made once the asset has been transferred.

Care needs to be taken in passing business assets between family members, and capital gains tax and inheritance tax also needs to be considered. It may be appropriate to combine this exercise with additional inheritance tax planning.

Salaries, Bonuses & Dividends

Consideration should be given to utilising unused personal allowances by means of taking a salary, bonus or dividend from your limited company. Salaries and bonuses will need to be paid before 5 April 2015 in order to be effective for the purposes of claiming corporation tax relief.

Please also note that for payroll purposes, the Real Time Information (RTI) regulations have removed the flexibility that could sometimes be employed when dealing with salary issues. It is therefore now essential that any wages/bonuses that have been accrued for or are due to be paid, are processed through payroll and recognised by 5 April 2015 at the latest.

Child Benefit

Child Benefit is progressively withdrawn where either partner receives income in excess of £50,000, with complete withdrawal occurring where income exceeds £60,000. There are opportunities for couples in family companies and partnerships to share their income effectively and avoid having benefit withdrawn. There are other factors to consider when undertaking planning of this nature, with advice needing to be taken in relation to salaries/dividends and profit-sharing ratios.

Capital Gains Annual Exemption

Consider the disposal of assets in order to make use of the annual capital gains tax exemption of £11,000. This cannot be carried forward and will be wasted where it is not utilised by 5 April 2015. Spouses should also consider transferring ownership of assets in order to make use of the annual exemption. Intra-spouse transfers carry no capital gains tax implications.

Gifts

Lifetime gifts to any one person during 2014/15 are exempt from inheritance tax where the total gifts to that person do not exceed £250.

The first £3,000 of lifetime transfers made during 2014/15 are exempt from inheritance tax, together with a further £3,000 where the exempt amount from 2013/14 remains unused.

Further gifts may also be made in consideration of marriage or civil partnership. £5,000 by a parent, £2,500 by a grandparent, and £2,500 by one party to the marriage/civil partnership to the other.

In addition, unlimited regular gifts by an individual out of income can be made free of inheritance tax, provided that the income is surplus to meeting normal living expenses. In this scenario, gifts are tax free (even in the event of death within seven years). It is important to record gifts of this nature as they are made, in the event that you are called upon to demonstrate that they qualify for this relief.

Capital Allowances – Annual Investment Allowance (AIA)

You can deduct the full value of a qualifying item of plant and machinery from your business profits, up to a maximum of £500,000, during the period from 1 April 2014 to 31 December 2015.

The actual amount of AIA claimable by a business will depend on its year-end date, and it is vital therefore that specific advice is taken before entering into a purchase.

The date the item is recognised as being purchased is when you signed the contract, if payment is due within less than four months, or when payment is due if this is more than four months later.

Please note that AIA isn't available for partnerships where one of the partners is a company.

Planning Further Ahead - Transferable Personal Allowances

As a measure to primarily benefit single-earner households, with effect from 6 April 2015 it will be possible to transfer up to £1,050 of your unused personal allowance to a spouse or civil partner. The recipient's tax liability will be reduced by 20% of the amount transferred, regardless of the marginal rate of income tax for either party.

This will be available to couples, provided that neither spouse nor civil partner is a higher or additional rate taxpayer, however, married couples who are eligible to claim the Married Couples Allowance (MCA) will not be able to make a transfer.

Planning Further Ahead – Incorporation

Consideration can be given to restructuring your business as a corporate vehicle, in order that personal tax liabilities can be limited to the extent that income is withdrawn by way of salary or dividend. While business profits will be subject to Corporation Tax at 20%, planning of this nature gives scope for personal allowances to be maximised and higher rate tax exposure to be mitigated.

There are other tax consequences and commercial reasons that need to be considered before the decision to operate as a limited company can be taken, but with potentially significant tax savings on offer, this is an area of planning that can prove to be extremely beneficial.

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