Private Client Year-end Tax Planning 5 April 2018

Ideas to reduce your tax bill

The period leading up to 5 April is one of the best times to review your finances to reduce the taxman's take.

Here is our summary of the important year-end tax tips that should be considered prior to 5 April 2018. This will allow you to structure your affairs for the new tax year in the most efficient way and to make use of allowances still available in the 2017/18 tax year.

Tax advice should be sought prior to implementing any of the suggestions below.

Summary

- ✓ The dividend allowance is set to decrease from £5,000 to £2,000 after 5 April 2018 so ensure that the full £5,000 nil rate band is utilised before this date.
- ✓ Make use of ISA allowances to save tax-free (now at £20,000!).
- ✓ Ensure pension contributions (including carry forward amounts) are paid within annual allowance limits.
- ✓ Take advantage of tax reliefs and allowances to reduce your rates of tax.

Income Tax

Personal Savings Allowance

The allowance continues to enable basic rate taxpayers to receive the first £1,000 of interest tax-free. Higher rate taxpayers will be able to earn up to £500 tax-free.

Any business owners may consider charging interest on loans made to their companies to utilise this allowance. Alternatively, look to balance portfolios between spouses to utilise this relief next year.

Dividend Allowance

The tax-free allowance on dividend income for the current tax year is £5,000, but from 6 April 2018 this is being reduced to £2,000. If the timing of dividends can be controlled, ensure that at least a £5,000 dividend has been declared per shareholder before 6 April 2018.

This reduction means an additional tax liability next year of £225 for a basic rate payer, £975 for a higher rate taxpayer and £1,143 for an additional rate taxpayer.

Owner-managed private companies should review their shareholder income structure, and married couples should consider reorganising their shareholdings to fully utilise both spouses' allowances.

Tax-Efficient Investments

ISAs

Make use of the annual allowance (£20,000) to invest in an ISA before the year-end. It is not possible to carry forward your allowance. There are now many ISAs to choose from depending on your personal needs, including the lifetime ISA and help-to-buy ISA. The ISA limit for 2018/19 is remaining the same.

SEIS/EIS/VCT

Investments made in qualifying companies may qualify for income tax relief and the shares may be exempt from capital gains tax on disposal.

SEIS investment enables a tax saving of 50% of the amount invested (up to £100,000 per annum). Additionally, 50% relief (not deferral) is given against other capital gains made in the year. The total gain on the SEIS shares is exempt if held for three years.

EIS and VCT investments attract income tax relief at 30%. The disposals of these shares are exempt from capital gains tax on sale when held for at least three years and five years respectively.

Both SEIS and EIS reliefs can be carried back to 2016/17, which could give a cash flow advantage.

Capital Gains Tax

Review your investment portfolio and look to realise gains to utilise your capital gains tax exemption of £11,300. You cannot carry forward this exemption, so make use of it to reduce your future liabilities. This is increasing to £11,700 on 6 April 2018.

Married couples can take advantage of two capital gains tax exemptions. Consider transferring assets between spouses to fully utilise the relief.

Consider selling assets standing at a loss to offset against any capital gains realised in the year.

Inheritance Tax

Remember you can make gifts which will fall out of charge to inheritance tax if you survive for seven years.

Review your income and expenditure for the year and consider establishing a pattern of making regular gifts out of income. Such gifts are outside the inheritance tax net and are a simple way of reducing your estate.

Residential Property Letting

Restrictions to finance costs relating to residential property letting continue to tighten; currently only 75% of finance costs can be offset against rental income in full. The remaining 25% is only relievable at basic rate of 20%. After 6 April 2018, only 50% of finance costs are relievable at your marginal rate and the remaining 50% relievable at basic rate.

It is therefore worth reviewing your assets and borrowings if you have not already done so. Are you able to move borrowings against commercial properties? The interest restrictions also do not apply against Furnished Holiday Lettings but be aware that there are strict criteria for your residential property to qualify.

Pension Contributions

The restriction to contributions made by high earners (net income more than £110,000) continues to apply. The standard annual allowance of £40,000 is reduced by £1 for every additional £2 of an individual's 'adjusted income' (including pension contributions made by the employer) over £150,000, subject to a minimum allowance of £10,000.

Unused allowances brought forward from the preceding three tax years can be used in 2017/18, although the current year's allowances must be used first.

Also consider making pension contributions for children and grandchildren of £2,880 net (£3,600 gross).

Pension contributions and charitable donations will 'reduce your income' for the purposes of the Child Benefit clawback test, so consider making these if your income is around the £60,000 mark to avoid the clawback.

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