Forbes Dawson
THE TAX SPECIALISTS

Private Client
Year End Tax Planning – 5 April 2016

Quick summary

- It is important to maximise all pension contributions (pre 16 March 2016) and charitable donations pre 5 April 2016.
- Utilise annual capital gains tax exemption of both husband and wife.
- Use the generous ISAs allowance of £15,240.
- Consider accelerating dividend payments.

Contact us

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Important Information

Year End Tax Planning – Reducing Your Tax Bill

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

Here is our summary of the important year-end tax tips to identify areas that should be considered prior to 5 April 2016 and how to structure your affairs for the new tax year. Tax advice should be sought prior to implementing any of the suggestions below.

Summary

- Look to make personal pension contributions before Budget Day on 16 March 2016;
- Make use of other tax reliefs and allowances to reduce your rates of tax;
- Consider paying a dividend as the dividend rates are increasing;
- Make use of ISA allowances to save tax-free (although the new savings allowance will be beneficial for many).

Pre 5 April 2016 planning

Income Tax

Dividend income

- From 6 April 2016 a 0% tax rate applies to dividends of up to £5,000 per annum, then increases to 7.5% for dividends in the basic rate (currently 0%). This increases to 32.5% (currently 25%) in the higher rate tax band and 38.1% at the additional tax rate (currently 30.56%).
- Owner managed businesses may wish to consider accelerating dividend payments to be paid in the 2015/16 tax year to utilise any remaining basic rate tax band.
- Going forward, look at splitting shareholdings with your spouse in order to achieve two £5,000 tax-free dividend allowances.

Pension Contributions

- Tax relief is currently available on personal pension contributions at the taxpayers marginal rate of tax.
- From 6 April 2016 additional rate taxpayers will have the amount they contribute restricted by £1 for every £2 their income exceeds £150,000.
- It is anticipated that on 16 March 2016 the government will replace the existing relief with a flat rate of between 20%-25%, meaning higher rate taxpayers are likely to lose out.
- For higher rate and additional rate taxpayers consider whether to maximise pension contributions prior to 16 March 2016.

Property Related Matters

- From 1 April 2016 a higher rate of Stamp Duty Land Tax will be applied on the purchase of second homes or buy-to-let residential properties. The higher rates will be 3% above the current SDLT residential rates.
- If you own existing residential furnished property for rental, consider delaying purchasing any new furnishings until after 5 April 2016 when you will attract relief in full for the acquisition, instead of the current 10% wear and tear allowance.
- The flat rate tax-free allowance for renting out a room or rooms in an individual's main residential property increases from £4,250 to £7,500 gross rents from April 2016.

Personal Savings Allowance

- Whilst ISAs continue to be extremely beneficial to higher rate taxpayers, from 6 April 2016 the savings allowance will apply automatically to enable basic rate taxpayers to receive the first £1,000 of income tax free. Higher rate taxpayers will be able to earn up to £500 tax free.
- Married couples can arrange their affairs more efficiently by considering moving bank accounts into joint names to fully utilise their spouse's allowance.

Tax Efficient Investments

ISAs

- Make use of your annual allowance (£15,240) to invest in an ISA before the year end. It is not possible to carry forward your allowance.
- The new Help to Buy ISA is available if you are saving to buy your first home. For every £200 saved the government will add a £50 bonus up to a maximum of £3,000. The bonus is not restricted to individual households, so you and your partner could receive a government bonus of up to £6,000 towards your first home.

SEIS/EIS/VCT

- SEIS investment enables a tax saving of 50% of the amount invested (up to £100,000 per annum). Also 50% relief is given against other capital gains made in the year. The total gain on the SEIS shares is exempt if held for the required 3 year period.
- EIS and VCT investments attract income tax relief at 30%. The disposal 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 can be carried back to 2015/16, giving a cash flow advantage.

Capital Gains Tax

Annual Exemption - £11,100

- Review your investment portfolio and look to realise gains to utilise your capital gains tax exemption of £11,100. You cannot carry forward this exemption, so make use of it to uplift your investment values.
- Married couples can take advantage of two capital gains tax exemptions by transferring assets between themselves before making the disposals.
- Consider selling assets standing at a loss to offset against any capital gains realised in the year, over the capital gains tax exemption.
- It is possible to 'bed and ISA' investments which means selling the assets on the market, with your ISA purchasing those investments. This allows you to realise gains equivalent to your capital gains tax exemption but retain the asset in your ISA.
- By selling investments into your ISA, the dividend yield is received tax-free and would not be subject to the intended changes outlined above.
- Check whether you hold any investments that have become of negligible value by 5 April 2016. If so, this capital loss can be used in 2015/16 against capital gains realised.

Members Voluntary Liquidations

- Liquidation distributions under solvent liquidations (known as MVLs) would normally be taxed as capital.
- The pre-Christmas Finance Bill and consultative document contained new legislation and includes targeted anti-avoidance rules, which are likely to result in tax rates for some exits to rise from 10% to 38.1% after April 2016 (treating the receipts as income not capital).
- Consideration should be given to bring forward proposed liquidations, where commercially possible.

Inheritance Tax

- Utilise the £3,000 annual inheritance tax allowance on gifts. If the previous year's allowance has not been utilised, make sure gifts are made of up to £6,000 before 5 April 2016. The £3,000 allowance can only be carried forward one year.
- 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.