Factsheet from

All Paul Limited, Chartered Certified Accountants

17 Longwood Crescent, Shadwell, Leeds, LS17 8SR

Telephone: 0113 225 2232 Email: info@all-paul.co.uk Website: www.all-paul.co.uk

Helping smaller businesses and their owners manage their accounting, business and taxation

Simple year-end tax planning for 2015-16

Much can be achieved in life with just a little planning. Take a few minutes to consider you own tax position for 2015-16 and that expected for 2016-17 and that of family and friends.

Income tax, personal allowances and basic rate bands

By bringing forward expenditure or deferring income or gains until another tax year you can reduce or defer a tax liability. However, at times it can be appropriate to push forward any income, or gains if appropriate, to a future tax year.

Each individual has a personal allowance which for most people for 2015-16 is £10,600. Any income up to this amount each year is free of income tax. The first £31,785 of income over this amount is generally taxed at 20% with the excess taxed at 40% until your taxable income reaches £150,000.

If you do not use your income tax personal allowance then it is wasted. It is worth £2,120 in tax a year i.e. £10,600 x 20%. Do you have family who work in your business that do not earn £10,600? A salary for their efforts will not only be appreciated, but it may also save tax. A profitable business will save 20% or 40% tax on the cost of extra wages or costs of using their home as an office, for example. These can be received tax free by individuals whose total taxable income is under £10,600 pa.

If you are expecting your taxable income e.g. through a salary, self-employed profits, rental income or dividends to be taxed at different rates in two separate tax years then you may be able to adjust your net taxable income, through perfectly legal methods, and allow it to be smoothed across two different tax years and pay less in total tax.

You may wish to transferring income producing assets between spouses and family members to use up lower rate bands and avoid loss of personal allowances or tax at marginal rates. This may apply to property income, dividends etc.

Child Benefit claimants and their partners may need to consider the £50,000 income band because the High Income Child Benefit Tax Charge (HICBC) applies for income over this amount. Where the HICBC cannot be avoided you may consider making an election to no longer receive Child Benefit, as this may spare any need to file a tax return.

When taxable income exceeds £100,000 the personal allowance is clawed back. Consider if income can be spared over two years e.g. drawing dividends, bonuses etc in different tax years.

Trading through a limited company

This is not a tax year end issue as such. There can be considerable savings by trading through a limited company rather than on your own account as a sole trader or partnership. Even after the dividend tax arrives on 6 April 2016 there are still tax savings to be made.

Dividends

This is one of the bigger matters to consider, and some may argue the biggest for most of our clients.

From 6 April 2016, all dividends received by an individual over £5,000 will attract a new tax. The rate of tax will be 7.5% for basic rate taxpayers and 32.5% for higher rate tax payers. If dividends can be brought forward before 6 April 2016 then the tax can be reduced. For a basic rate taxpayer (income less than £42,385) they can receive all dividend tax free before 6 April 2016.

So, make the most of tax free basic rate dividends before the new dividend tax regime is introduced. If necessary create new share classes and vote dividends to new family shareholders ahead of the change. However, this area does require careful tax planning.

Consider making adult children shareholders so that they can benefit from the £5,000 tax free allowance.

Accounts review before the year end

The self-employed and limited companies may consider bringing forward their expenditure to claim allowances earlier and before their accounting year-end.

If you have tax losses from your business there may be opportunities to utilise them tax efficiently.

Pension contributions

Paying a pension contribution will reduce taxable income. This is a good tax saving measure especially if income can be saved at a higher rate than you would normally being paying tax at.

For example, for a higher rate tax payer, making a £8,000 personal pension contribution would result in an extra £2,000 being paid into the pension scheme by H M Revenue & Customs. In addition, a further £2,000 could be saved through higher rate tax relief. The end result is to get £10,000 into a pension scheme and only costing you £6,000.

Ensure contributions are paid, that is that they leave the bank account, within the tax year in order to claim relief.

If you are considering making pensions savings in excess of £40,000 you will need to work out your contributions in terms of your deemed Annual Allowances for the last three years in order to work out the maximum relief available to you

The maximum pension contribution for non-earners is £2,880 net (grossed up to £3,600). This means that an individual with no earnings or earnings below £3,600 can make a £2,880 pension contribution and H M Revenue & Customs will top it up to £3,600. The above is an exception to the general rule that you cannot make a pension contribution that is more than your taxable earned income e.g. from employment or self-employment.

A personal limited company can make an employer' pension contributions to a director's or an employee's registered pension scheme in excess of their earnings. As most directors of smaller owner-managed businesses only draw a salary of around £8,000 to £10,600, with the rest in dividends, this can be a useful way to boost their pension scheme.

All individuals currently making personal pension contributions and that have their own limited company should consider starting to make future contributions through their limited company as employer pension contributions. This is as a result of the introduction of the dividend tax from 6 April 2016. It is pointless paying the dividend tax on income that has been extracted from a limited company, which is then paid into a pension scheme, when a direct employer paid pension contribution can avoid the tax.

There is much talk of H M Revenue & Customs stopping higher rate tax relief (at 40% or more) on pension contributions. This is another reason to make pension contributions earlier rather than later.

Savings and investments

From 6 April 2016, every non-taxpayer, lower rate taxpayer and basic rate taxpayer can receive £1,000 in savings income tax free. Higher rate taxpayers can receive £500 tax free.

Savings income does not appear to be defined. It will certainly include bank and building society interest. It may also include interest paid by your own limited company on director's loan accounts. By paying interest to yourself on balances due to you by your company you can save 20% Corporation Tax and most probably pay no income tax on the interest. You can justify paying much higher rates of interest on unsecured loans in an unquoted limited company. So, if you paid 10% interest on a £10,000 director's current account balance you would create £1,000 of interest, save 20% Corporation Tax and probably pay no personal tax on the interest. I have not seen anything yet to say that this cannot be achieved.

So, an individual with £50,000 in a bank account receiving 2% interest would currently receive £1,000 in interest and will in future save £200 in tax.

To avoid paying tax on interest consider the timings of closing deposit accounts which pay interest at yearly intervals to ensure which tax year your interest falls into.

ISAs

Have you used up your ISA limits for the year of £15,240?

Have you considered funding an ISA for children or grandchildren?

Have you considered a Junior ISA for children under 18 without a trust fund?

Have you started a Right to Buy ISA for the children?

A general reminder on year-end accounts

Most of our clients have their annual year end set at 31 March. Start getting your records up to date.

Please consider and record any year end stock on hand. Keep a record of any amounts due to and from your business that will need to be put into the annual accounts for debtors and creditors respectively. Review and record your annual business mileage for 45p / 25p per mile claims.

Residential property landlords

If you are considering significant repairs to your properties it may be better to wait until the new rules apply on 6 April 2016 before you replace furniture. That way you will obtain 100% tax relief instead of just your 10% wear and tear allowance.

Until 6 April 2016, if you rent a furnished property to your tenants then you can claim 10% of the gross rent, possibly subject to some adjustments, as a deeded repair cost known as wear-and-tear allowance. After 5 April 2016 this stops. If you claim wear-and-tear allowance this is instead of the cost of replacing soft-furnishing e.g. tables, chairs, carpets, beds and furniture and non-integrated white goods. After 5 April 2016, you can claim the actual cost of replacing these items.

If you purchase a property to rent out after 6 April 2016, the downside is an increase in stamp duty land tax (SDLT). However, SDLT is not applied to the cost of furniture.

Capital gains tax

Each individual is entitled to £11,100 of capital gains each tax year free of tax in 2015-16.

If you are considering selling assets, e.g. property and shares, which will generate a gain over this amount, then consider selling assets over more than one tax year. I've seen clients sell two rental properties, both with gains, just before 5 April. If they waited a few more days and sold one of them after 5 April then they can save £11,000 x 18% or x 28% in tax.

Also consider using your spouse's exception. Gift between spouses are tax free. Therefore, if the wife has £22,000 of gains that will be realised from an impending share sale she can avoid capital gains tax by first gifting assets that will generate £11,000 of gains to her husband before he then sells. In this way, each spouse makes £11,000 gain tax free.

For information of users

This material is published for the information of clients. It provides only an overview of the tax law in force at the date of publication, and no action should be taken without consulting the detailed legislation or seeking professional advice. Therefore, no responsibility for loss occasioned by any person acting or refraining from action as a result of the material can be accepted by the author or the firm.