FINANCIAL GUIDE

A GUIDE TO

2014/15 YEAR END TAX PLANNING

WITH CAREFUL TAX PLANNING, IT MAY BE POSSIBLE TO MITIGATE TAXES OR MAKE THEM MUCH MORE MANAGEABLE

A GUIDE TO 2014/15 YEAR END TAX PLANNING

With careful tax planning, it may be possible to mitigate taxes or make them much more manageable

The run-up to the tax year end on 5 April 2015 is the perfect time to consider tax planning opportunities and to put in place strategies to minimise tax throughout 2015/16.

Good planning and careful timing are critical if you want to maximise tax reliefs or minimise the tax bill on a transaction or investment, and to avoid falling foul of the system of penalties and interest levied by HM Revenue & Customs (HMRC). With some prior preparation, you could arrange your financial affairs to minimise the impact of tax on you, your family and your business.

In this guide, all references to married couples include registered civil partners.

MAKE SURE YOUR TAX CODE IS CORRECT

Check your tax code each year (the numbers and letters on your payslip). Don't assume that HMRC know what they are doing. Check the basics: is your name, address and National Insurance number right? The notice will also state your employer's name; if you no longer work for that employer, something is wrong.

Check the letter at the front of your tax code. For example, L is used for anyone getting the basic personal allowance; P is used for those aged between 65 and 74 getting the full personal allowance; Y for those 75 or over getting the full personal allowance; V is used for those aged between 65 and 74, eligible for the full personal allowance and the married couple's allowance who just pay basic-rate tax; K means you get no tax-free pay or owe money to HMRC.

The numbers on your tax code are worked out as follows. Firstly, your tax allowances, any income you've not paid tax on – part-time earnings or untaxed interest – and any taxable employment benefits are added up. This figure is then taken away from the tax allowance and divided by 10. This is added to the relevant letter and becomes your tax code. If you're on the wrong code, you may be paying too much tax.

TAKE ADVANTAGE OF THE NEW INDIVIDUAL SAVINGS ACCOUNT (NISA) ALLOWANCE

Make sure that you fully use your tax-efficient NISA allowance. From 1 July 2014, the annual limit increased to £15,000 (with effect from 6 April 2015, this will increase to £15,240). This can all be allocated to a Cash NISA or a Stocks & Shares NISA, or alternatively split between both cash and stocks and shares. This means married couples, for example, could put up to £30,000 between them into NISAs this tax year (before 5 April), and a further £30,480 from 6 April.

Interest received on cash savings or gains from NISA investments are tax-free. Higher-rate taxpayers don't have to pay any further tax on dividends from investments either, and you don't have to declare NISAs on your tax return. Also, there is no capital gains tax to pay when you sell shares or units held in a NISA.

JUNIOR NISAS PROVIDE GOOD LONG-TERM SAVINGS

Consider using Junior NISAs (the replacement for Child Trust Funds) as a good long-term savings option for a child's future and to avoid being taxed on gifts you make to them. In the tax year 2014/15, the Junior NISA allowance is £4,000, and this will increase to £4,080 in April 2015.

SAVE TAX WITH PENSION CONTRIBUTIONS

Take advantage of tax reliefs and (tax-deductible) employer

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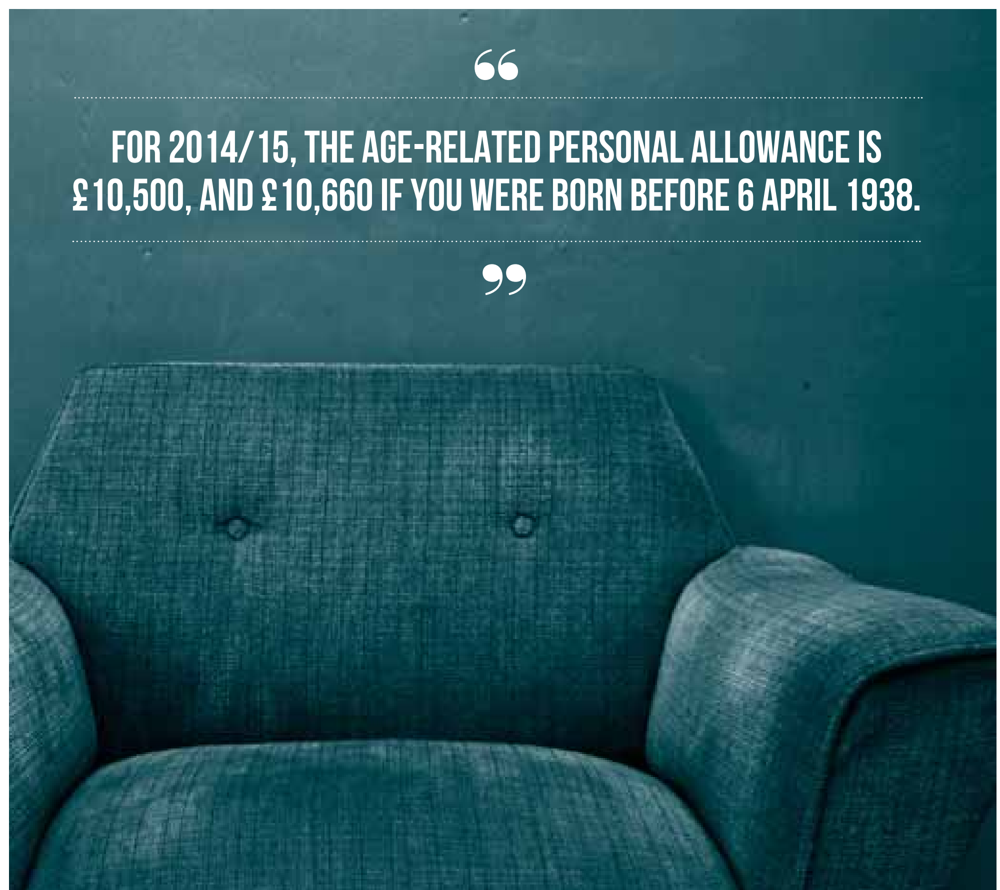
contributions to build a fund for your retirement. Personal contributions to pension schemes attract tax relief at your highest rate, making them an ideal tax-efficient investment vehicle.

For pension contributions to be applied against your 2014/15 income, you must pay on or before 5 April 2015. Tax relief is available on annual contributions limited to the greater of £3,600 (gross) or the amount of the UK relevant earnings, but also subject to the annual allowance. The basic annual allowance cap on pension savings is £40,000 for 2014/15.

TRANSFERRING ASSETS COULD OFFER TAX BENEFITS

If you are married and do not own assets in some form of joint ownership, it may be advantageous for tax purposes for transfers to be made to ensure joint ownership. Consider transferring savings and investments to your spouse if they pay a lower rate of tax than you do. Complex rules apply, but if appropriate to your particular situation, it could provide benefits for income tax, capital gains tax and even inheritance tax. Transfers should be outright and unconditional.



AGE-RELATED ALLOWANCE ELIGIBILITY

If you were born before 6 April 1948, check if you are eligible for an increased personal allowance. Not all income is taxed, which means you might pay a lower income tax rate. For 2014/15, the age-related personal allowance is £10,500, and £10,660 if you were born before 6 April 1938. As time passes, the additional age-related allowance will disappear as it is overtaken by increases in the standard personal allowance.

STOP MAKING NATIONAL INSURANCE CONTRIBUTIONS

If you were born before 6 April 1948, when you reach State Pension age (previously 60 for women and 65 for men, but currently rising to 65 for both men and women by 2018), you no longer have to pay National Insurance contributions. This means it's important to stop making National Insurance contributions if you carry on working beyond state retirement age.

IT'S GOOD TO GIVE

The Gift Aid scheme is for gifts of money to charities by individuals who pay UK tax. Charities can reclaim tax on any donations made by individuals, whether large or small, regular or one-off – provided the conditions for the tax relief are satisfied.

Gift Aid donations are regarded as having basic-rate tax (20%) deducted by the donor. If you are over 65, making donations to a charity through Gift Aid could reduce your taxable income to below the threshold at which you start to lose out on age-related allowances. If you are in a higher tax bracket, you can claim back the difference between the basic and higher rate of income tax on any Gift Aid donations.

FULLY UTILISE YOUR CAPITAL GAINS TAX ALLOWANCE

Capital gains tax is a tax on the profit when you sell or 'dispose of' something, an 'asset' that's increased in value. It's the gain you make that's taxed, not the amount of money you receive. For individuals, capital gains in 2014/15 under £11,000 is tax-free. Married couples who own assets jointly can claim a double allowance of £22,000.

Capital gains tax is charged at 18% on your total taxable income and gains (up to £31,865) if you are a standard-rate taxpayer, and 28% if you pay tax at a higher rate (from £31,866).

TAX PLANNING TIPS

PROPERTY INCOME

Tax-free extra income
By signing up to the 'rent a room' scheme, not only could you enjoy the extra income from the rent, but also up to £4,250 a year is free from tax. 'Rent a room' relief is an optional scheme that lets you receive up to this amount in rent each year from a lodger, tax-free. This only applies if you rent out furnished accommodation in your own home.

Landlord's energy-saving allowance
You can claim 'landlord's energy saving allowance' for the cost of buying and installing certain energy-saving products for properties you rent. You can also claim a special tax allowance of up to £1,500 for insulation, draught proofing and installing a hot water system.

Costs you can offset against tax
If you rent out property, don't forget you can deduct certain costs before declaring your taxable income. The costs you can offset against tax are numerous, including mortgage interest; lettings agents' and accountants' fees; insurance; utility bills; council tax; cleaning; and maintenance and repairs (but not improvements – building an extension will enhance the value of your property, but you can't claim it as a daily expense in the running of that property).

Keep on top of your tax by retaining all receipts and making sure everything is up to date. Also, when calculating your rental income for your tax return, you need to exclude the deposit you receive from each tenant.

TAX PLANNING TIPS

EMPLOYEE BENEFITS

Take your pension to the max
Pensions have long been seen as a tax-efficient form of investment. The contributions that you pay into your pension will benefit from tax relief and aren't subject to tax while they're invested in your pension pot (although the tax credit paid with dividends can't be reclaimed by your pension scheme). Contributions to your employer's pension scheme (including any additional voluntary contributions you make) can be made from your gross pay before any tax is charged.

From 6 April 2015, there will be no restrictions on how much income you can withdraw from your defined contribution pension pot, but any income that is withdrawn (and it is possible to withdraw your whole remaining pension pot in one go) may be subject to income tax.

Tax-efficient commuting
If you are a commuter, check to see if your employer will give you a tax-free loan to buy your season ticket.

Business traveller
Use a pool car, if your employer provides these, for occasional business travel. Although the company car is still often an important part of an employee's remuneration package, tax and National Insurance costs could mean that your company car is not the most tax-efficient option for you.

The car benefit and car fuel benefit (where fuel for private use is provided with the car), on which you pay income tax, is calculated at up to 35% of the list price (car) and the same percentage on a notional £21,700 (fuel). The maximum taxable percentage is set to rise to 37% in April 2015.

Cash equivalents
If you are entitled to a company car, consider whether it would be more tax-efficient to take a cash equivalent in pay instead.

Lower-emissions, lower taxes
If you are changing your company car, consider a low-emissions model. These are now taxed at a lower percentage of their list price than cars with a high CO_2 rating.

Childcare schemes and tax credits
If you are an employee and pay for childcare, consider asking your employer if they have a childcare scheme. Salary sacrifice childcare schemes are easy to establish and could result in substantial savings for both employees and employers.

The new tax-free childcare scheme for employer-supported childcare is to be phased in from autumn 2015. The scheme will be available to families where both parents are working and meet a minimum income level, with each earning less than £150,000 a year, and is limited to £10,000 per child per year (the Government's contribution being a maximum of £2,000). Parents who received support through Tax Credits or the Universal Credit will not be eligible.

INHERITANCE TAX MATTERS

You need to check if you have a potential inheritance tax liability. Each individual has a current tax-free allowance of £325,000, known as the 'nil-rate band'. Inheritance tax only applies to the value of your estate above this at a rate of 40% on death. However, transfers between married couples are exempt from inheritance tax, or the seven years prior to death, and if the nil-rate band is not used on the first death. This means that the value of your estate on the second death that will be exempt from inheritance tax doubles up to £650,000.

Lifetime gifts are not normally counted as part of your estate for inheritance tax purposes if you live for a further seven years after making them. Lifetime transfers are either exempt, potentially exempt, or chargeable lifetime transfers.

EFFECTIVE TRUSTS

Trusts can provide a way of reducing inheritance tax liabilities, not just for the donor but also for the donee. The rules are complex, but significant tax savings could be achieved with careful planning and receiving professional advice. In particular, trusts can be an effective way of using important reliefs on businesses and agricultural properties.

WHERE THERE'S A WILL, THERE'S A WAY

If you die without a Will, the intestacy provisions will apply and may result in your estate being distributed in a way you would not have chosen. You should write a Will and keep it up to date to reflect changes in the family situation. In particular, Wills need to be reviewed and amended as necessary on marriage or on divorce. The precise position depends on whether English or Scottish law applies.

REMOVING VALUE FROM AN ESTATE

Life assurance arrangements can be used as a means of removing value from an estate and also as a method of paying inheritance tax liabilities. A policy written under an appropriate trust can be arranged to cover an inheritance tax liability due on death. It is particularly useful in providing funds to meet an inheritance tax liability where the assets are not easily realised. ■

TAX PLANNING TIPS

SELF-EMPLOYMENT

Tax-deductible expenses

If you're self-employed, you can claim expenses against your tax bill, but not all business expenses qualify so it's important to make sure your claim is valid. Unless something you buy for your business is a capital asset, for example, a computer or machinery (which you claim for under different rules), you can deduct its full cost when working out your taxable profits. You receive immediate tax relief for the full amount.

Self-employed car costs

If you're self-employed, you can claim the running costs of a car, but not the cost of buying one. If you use the same car privately, you can claim a proportion of the total costs.

Cash flow boost for self-employed

If you are setting up as self-employed, you may be able to improve your cash flow by choosing an accounting year that ends early in the tax year. This maximises the delay between earning your profits and your final tax demand.

WHAT AREAS HAVE YOU IDENTIFIED?

If this guide has helped you identify some of the areas where you could take action, and you want to discuss the most appropriate way forward, please contact us for further information. We look forward to hearing from you.

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Tax planning can be a broad and complex area. Unfortunately, many people ignore opportunities to save money on their taxes. We can assist by recommending appropriate solutions to help you save or reduce the tax you pay. With careful tax planning, it may be possible to mitigate taxes and make them much more manageable. To find out more, please contact us.

The content of this guide is for your general information and use only, and is not intended to address your particular requirements. The content should not be relied upon in its entirety and shall not be deemed to be, or constitute, advice. Although endeavours have been made to provide accurate and timely information, there can be no guarantee that such information is accurate as of the date it is received or that it will continue to be accurate in the future. No individual or company should act upon such information without receiving appropriate professional advice after a thorough examination of their particular situation. We cannot accept responsibility for any loss as a result of acts or omissions taken in respect of the content. Thresholds, percentage rates and tax legislation may change in subsequent Finance Acts. Levels and bases of, and reliefs from, taxation are subject to change and their value depends on the individual circumstances of the investor. The value of your investments can go down as well as up and you may get back less than you invested.

Goldmine Media, Basepoint Innovation Centre, 110 Butterfield, Great Marlings, Luton, Bedfordshire LU2 8DL

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