

30 WAYS TO REDUCE YOUR TAX BILL



Sensible tax planning is an essential tool in helping to maximise your personal wealth and boost your business's profitability.

Keeping your tax bill to a minimum is not a matter of aggressive or complex tax schemes, but rather of identifying which of the many tax reliefs and allowances specifically granted by law are available to you.

From ISAs to capital allowances, this guide contains 30 essential ways of saving tax – for you, your family and your business. Contact us to discuss how we can help you take advantage of them.

PERSONAL TAX AND SAVINGS

1. Check your PAYE tax code

Many people can go for years inadvertently paying the wrong amount of tax because their tax code is incorrect. You can help to avoid this by checking the series of numbers and letters in your tax code to ascertain whether the correct code is being applied. HMRC is using PAYE codes to collect tax in 'real time' (known as 'dynamic coding'), making it all the more important to ensure your code is correct.

See www.gov.uk/tax-codes for more details, or contact us for advice.

2. Maximise personal allowances...

Ensure that you are making the most of the tax-free personal allowance (PA), which for 2018/19 is £11,850. If your spouse or partner has little or no income, consider transferring income (or income-producing assets) to them to ensure that they are able to make full use of their PA.

Care should be taken to avoid falling foul of the settlements legislation governing 'income shifting'. Any transfer of income must be an outright gift with 'no strings attached' and include any underlying capital (e.g. the shares yielding the dividends). Please contact us before taking action.

Eligible couples may also want to consider transferring part of their personal allowance. Up to £1,190 of an individual's personal allowance may be transferred by eligible spouses and civil partners to their partner, where neither pays tax at the higher or additional rate.

3. ...and minimise the income tax rate

Similarly, it is costly for one spouse or civil partner to pay income tax at 40% or even 45% while the other pays tax at only 20%. Where one spouse or civil partner has a lower marginal tax rate, consider transferring income-producing investments into his or her name. This may include shares, let property, bank deposits, etc. (but see earlier). Different income tax rates and bands apply in Scotland, although the tax planning principle still applies.

4. Preserve allowances by donating to charity

If you or your spouse/partner are receiving child benefit and either of your incomes are expected to be between £50,000 and £60,000, one of you will have to pay tax – the High Income Child Benefit Tax Charge, essentially a claw-back of your child benefit. The amount of the charge depends on the total child benefit received and the extent to which 'adjusted net income' exceeds £50,000. Making donations to charity through Gift Aid can reduce your taxable income to below the threshold at which you would start to lose out. This is also important for individuals with incomes just above £100,000, as the PA is reduced by £1 for every £2 of income over this figure.

5. Pay into a pension scheme

Investing in a company or personal pension scheme may afford tax breaks on your personal pension contributions. For taxpayers with adjusted net income above £100,000, maximising pension contributions (within limits – see later) may allow you to obtain relief at the effective rate of 60%. Pension contributions can be made at up to 100% of relevant earnings, subject to the annual allowance, which is currently £40,000 for most people. Any unused allowances may

be carried forward for up to three years. Those with adjusted income (including the value of any pension contributions) above £150,000 will have their annual allowance tapered away to a minimum of £10,000, while a £4,000 limit may apply where money purchase pensions are accessed. As with charitable donations, paying in to a pension can reduce an individual's net adjusted income for the purposes of assessing the High Income Child Benefit Tax Charge.

6. Trace unclaimed assets

If you have multiple accounts or have changed your name or address several times over the years, it can be easy to lose track of your assets. Billions of pounds worth of assets lie unclaimed in the UK. Experian's Unclaimed Assets Register can help you to locate lost or forgotten assets – call 0333 000 0182 or visit www.uar.co.uk for more information. Please note that a charge applies for this service. To find out whether you have an unclaimed Premium Bond prize, call 08085 007 007 or visit www.nsandi.com.

7. Don't forget the children

All children have their own PA, so income of up to £11,850 will escape tax this year. Income generated by parental gifts is subject to a limit of £100 (gross) per parent, unless the child has reached 18, or married.

8. Make the most of tax-free parental gifts

Consider investing parental gifts to produce tax-free income, or accumulate income, or in a cash or stocks and shares Junior ISA (JISA). The £100 limit does not apply to gifts into Child Trust Funds, JISAs or National Savings Children's Bonds.

9. Use your capital gains tax (CGT) allowance

Make the most of your CGT exemption limit each year (£11,700 in 2018/19). It may be possible to transfer assets to a spouse or civil partner or hold them in joint names prior to any sale to make full use of exemptions. Individuals with a particularly large gain may want to realise it gradually to take full advantage of more than one tax year's allowance.

However, you should only consider spreading a disposal of, for example, shares if you will not be putting your gain at risk in the meantime.

10. Invest in an ISA

The overall annual subscription limit for ISAs is set at £20,000 for 2018/19. Individuals are allowed to invest in a cash ISA, a stocks and shares ISA, an Innovative Finance ISA, or a combination of the three, subject to not exceeding the overall annual investment limit. A

tax-free JISA is available for those aged under 18 who do not have a Child Trust Fund account, and total annual contributions are capped at £4,260 in 2018/19.

Meanwhile, eligible individuals may also want to consider the Lifetime ISA. The accounts are available to any adult under 40 and individuals can save up to £4,000

each year. They will then receive a 25% bonus from the government on any savings put into the account before their 50th birthday. The funds can be used to save for a first home or for retirement, but note that various rules and restrictions apply.

And don't forget, Help to Buy ISAs are still available from a variety of banks and building societies and also offer unique incentives for those saving for a first home.

You might also want to consider alternative investment schemes such as the Enterprise Investment Scheme or Venture Capital Trusts, which

can yield generous income tax, CGT and inheritance tax (IHT) reliefs. Independent financial advice should be sought when considering such investments.

TAX AND PROPERTY

11. Claim landlord expenses

If you rent out property you can deduct a range of expenses from the rental income. These include: water rates; council tax; gas and electricity; maintenance and repairs to the property (but not improvements, which may instead score for relief against any future capital gain); landlord insurance; costs of services, including the wages of gardeners and cleaners; letting agency and accountancy fees; ground rents and service charges; and other direct costs such as phone calls, stationery and advertising for new tenants.

However, under changes being introduced gradually from April 2017, landlords are no longer able to deduct all of their finance costs, such as mortgage interest and fees, from their property income. They will instead receive a basic rate reduction from their income tax liability for their finance costs.

For 2018/19 the deduction from property income is restricted to 50% of finance costs, with the remaining 50% being available as a basic rate tax reduction. The direct deduction of finance costs will then reduce by a further 25% in 2019/20, when 75% will be given as a basic rate tax reduction. From 2020/21, all financing costs incurred by a landlord will be given as a basic rate tax reduction. This will have the effect of potentially increasing an individual's net adjusted income.

12. Claim tax deductions for furnished holiday lets

Did you know that some let properties can qualify for some important tax concessions? The Furnished Holiday Lettings (FHL) rules allow holiday lettings of UK properties that meet certain conditions to be treated as a trade for some specific tax purposes. Unlike other domestic lettings, the expenses can include capital allowances on furniture and kitchen equipment. The income counts as earnings for pension contribution purposes, and there are other advantages relating to the disposal of such properties. Please contact us to find out more.

13. Rent out a room

Under the 'rent a room' scheme, income from letting furnished rooms in your main residence is exempt from tax if the gross annual rent does not exceed £7,500 (£3,750 if you share the income) in 2018/19. If you are letting to lodgers who live as part of the family, there will be no loss of capital gains exemption. Otherwise, there may be some restriction.

A lodger can occupy a single room or an entire floor of your home. However, the scheme doesn't apply if your home is converted into separate flats that you rent out, or if you let unfurnished accommodation in your home.

TAX AND BUSINESS

14. Review your business structure

The structure of your business can have a significant impact on your annual tax bills. While in the early years of a business it may be advisable to operate as a sole trader or partnership, as profits increase it may be more beneficial to form a limited company. Please talk to us about the best option for your business.

15. Don't forget to reclaim input VAT on petrol

Do you reimburse employees who use their own vehicles and pay for their own fuel at the HMRC approved mileage rates? If so, then don't forget to reclaim the VAT applicable to the deemed fuel element of the mileage rate. You will need to ensure each employee submits a valid VAT receipt in support of the claim.

16. Review your capital expenditure

Review your capital expenditure to maximise claims for capital allowances. The majority of businesses are able to claim a 100% Annual Investment Allowance (AIA) on the first £200,000 of expenditure on most types of plant and machinery (except cars). The AIA applies to businesses of any size and most business structures, but there are provisions to prevent multiple claims.

17. Consider the timing of expenses

Delaying expenditure to save money or aid cash flow might not be the most tax-efficient approach. By incurring expenses shortly before the year end rather than after, relief for those expenses is obtained 12 months earlier.

18. Make the most of losses

You may be able to turn your losses around by carrying them forward to set against future profits, or setting them against other income for immediate relief. We can review loss relief claims to ensure that they are as tax-efficient as possible – please contact us to discuss this further.

19. Utilise tax reliefs on capital gains

Companies pay corporation tax on chargeable gains. Although companies do not have the benefit of an annual allowance exemption, indexation relief provides some protection against inflationary gains. Making the most of tax reliefs on capital gains, such as roll-over relief for business assets, can defer the corporation tax bill for companies and the capital gains tax bill for unincorporated businesses.

20. Re-evaluate the company car

The benefit-in-kind rates for cars increased significantly from April 2018, and further rises are planned in both 2019 and 2020. With the increases likely to result in cost rises for employers, now may be the ideal time to review your company car policy. It may even be worth considering an ultra-low emission vehicle or a company van. We can help you to decide on the most tax-efficient motoring strategy for your business, so do speak to us for advice.

ESTATE PLANNING

21. Write a Will and keep it up-to-date

A well-drafted Will can ensure that the wealth you have built up during your lifetime benefits the right people on your death – and it can also be structured to save tax. However, you must review it regularly to ensure it reflects changes in family and financial circumstances as well as changes in tax law, such as the introduction of the residence nil-rate band (see later).

We can help to reduce your tax liability and secure your family's long-term financial future, through a tax-efficient Will. Please contact us for further assistance.

22. Utilise IHT exemptions

You should make the best use of IHT allowances, including the annual exemption, which allows you to give away cash or assets up to a total value of £3,000 a year without incurring any taxes. Any regular gifts you make out of your after-tax income, not including your capital, are

also exempt from IHT (providing you have enough income left after making the gifts to maintain your normal lifestyle).

Most gifts made during your lifetime will be entirely exempt from IHT if you live for seven years after making the gift. These sorts of gifts are known as 'Potentially Exempt Transfers' (PETs).

Taxable gifts made up to seven years before death are added back into your estate and tax is calculated on the inclusive value. But to the extent that such lifetime gifts made between three and seven years before death exceed the tax threshold, the associated tax is discounted by up to 80%.

Don't forget, small gifts of up to £250 per person per tax year are exempt, while parents can each give cash or gifts worth up to £5,000 to their children as a wedding/civil partnership gift (grandparents and great grandparents can give up to £2,500 and others can give up to £1,000).

23. Update your 'expression of wishes'

If an individual has not bought an annuity, a defined contribution pension fund remains available to pass on to selected beneficiaries. IHT can be avoided by making an 'expression of wishes' to the pension provider suggesting to whom the funds should be paid.

Prior to 6 April 2015 there were, however, other tax charges in many situations. In some cases tax at 55% of the fund value was payable.

Where the first payment to a beneficiary is made on or after 6 April 2015, there are now significant exceptions from the tax charges. It therefore may be beneficial to spend your assets outside your pension fund (thus potentially saving 40% IHT) and potentially leaving more of your pension fund to your family.

24. Leave a gift to charity

The full rate of IHT is payable at 40% where your taxable estate value is in excess of £325,000. However, gifts made to one or more qualifying charities can reduce the rate of IHT payable on your estate.

If you plan to give at least 10% of your net estate to charity, the rate of tax levied on some or all of the rest may be reduced to 36%.

25. Skip a generation

Your children may be grown up and financially secure. If your assets pass to them, you will be adding to their estate, and to the IHT which will be charged on their deaths. Instead, consider leaving something to your grandchildren, thereby forcing the IHT charge to 'skip' a generation. Trusts can be a useful tool, for not only saving IHT, but also for ensuring the family silver is kept within the family and still allowing future generations full use of them.

26. Claim a partner's unused IHT allowance

IHT is currently payable where a person's taxable estate is in excess of £325,000. An additional residence nil-rate band (RNRB) applies where a residence is passed on death to direct descendants such as a child or a grandchild. Introduced in April 2017, the RNRB has risen to £125,000 for 2018/19, and is due to increase each year thereafter to reach £175,000 in 2020/21. The additional band can only be used in respect of one residential property which has, at some point, been a residence of the deceased.



Married couples and civil partners can boost their IHT-free allowance by claiming a proportion of any 'nil-rate band' their deceased partner has not used.

RETIREMENT PLANNING

27. Check your state pension entitlement

Whatever your pension arrangements, planning to maximise the amount you will receive in retirement is crucial. As a first step, check that your NICs are up to date and, if necessary, pay voluntary NICs to ensure that you receive the full state pension.

You can check whether you are likely to have a gap in your NICs record by requesting information about your State Pension forecast from the Future Pension Centre: www.gov.uk/future-pension-centre.

28. Carry forward unused allowances

Where pension savings in any of the last three years' pension input periods are less than the annual allowance it may be possible to carry forward the unused relief from that year.

But note that where premiums in one year are less than the annual allowance, and this is followed by premiums exceeding the annual allowance in a later year, the unused relief carrying forward is reduced. The rules are complex so please talk to us before taking action.

29. Stop paying national insurance

If you are planning to defer your retirement and continue working, you no longer need to pay NICs when you reach the State Pension Age (SPA), but you will need to show your employer proof of age. If you are self-employed, you stop paying Class 2 contributions as soon as you reach SPA and Class 4 contributions from the start of the tax year after the one in which you reach SPA. You do not receive a state pension until you make a formal claim. If you do not claim, the pension will be deferred.

30. Consider your retirement options

Increased pension flexibility means it is all the more important to seek expert advice and carry out a thorough review of the options available to you; your decisions now could affect the quality of your retirement for years to come. Although you are no longer required to purchase an annuity, if you choose to do so, you should always shop around for the best deal.

To help pension scheme members access retirement financial advice, the government has introduced a Pensions Advice Allowance. The allowance enables those nearing retirement to withdraw up to £500 from their defined benefit contribution pension pots, tax-free, for the purpose of obtaining regulated financial advice. The £500 allowance can be used on three occasions, although only once in a tax year.

My tax planning checklist

- Ensure that tax rates are as low as possible across my family
- Check my PAYE code and understand the tax rates and allowances applicable to me
- Utilise my ISA allowance and consider other tax-privileged saving opportunities
- Review my pension arrangements
- Claim capital allowances for expenditure on business equipment
- Plan to minimise the tax take, including VAT and capital gains tax
- Review my estate plan, my Will and 'expression of wishes' for my pension plan(s)
- Put in place a tax-efficient gifting strategy
- Discuss with my accountant how to minimise the cost of business motoring
- Contact my accountant to discuss these and other strategies to help minimise my tax liability

HOW WE CAN HELP

This guide is merely a starting point, designed to highlight key tax planning opportunities. As your accountants, there are many ways in which we can help to minimise the tax burden.

Contact us for more advice about:

- Minimising your business taxes
- Making the most of capital allowances
- Reducing business motoring costs
- Improving your financial position by accelerating expenditure into the current year, or deferring income into the next.

We can also help you to:

- Make the most of personal allowances
- Save money tax-efficiently
- Check your pension arrangements are tax-efficient
- Reduce the inheritance tax on your estate.

We hope you find this guide useful – please contact us for more information and advice.