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2017/18 Year End Strategies

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With the end of the tax year in sight, now is the ideal time to review your financial planning to ensure that you and your business are making the most of any tax-saving opportunities.

A number of changes to tax legislation and rates came into effect during 2017/18. From the changes to ISAs, to new rules on inheritance tax, we will work with you to ensure that your financial planning is up-to-date and takes into account the most recent developments in tax law.

Naturally, this will involve identifying any areas where we can help you to lower your tax liabilities, increase the profitability of your business and maximise your personal wealth. This guide considers some tax-efficient planning strategies that you might wish to implement before 5 April 2018. These may include:

- utilising tax-efficient saving and investment schemes
- reviewing your business motoring strategy
- using allowances and exemptions to reduce your inheritance tax bill
- considering different methods of profit extraction.

Of course, financial planning should be an ongoing, year-round activity and ideally one that is not left until 5 April! Please contact us in good time to discover how we can help you plan for a more tax-efficient and prosperous future.

Is a company car the best option?

While company cars can be a useful tool for some businesses, it may come as a surprise to many people to learn that they are not always the most tax-efficient option.

The car benefit and car fuel benefit (where fuel for private use is provided with the car), on which you pay income tax at up to 45%, is calculated at up to 37% of the list price (car) and the same percentage on a notional £22,600 (fuel) in 2017/18.

With the percentages (and therefore the taxable benefits on cars) increasing year on year, now may be the ideal time to carry out a complete review of your company car policy. It could prove more beneficial to pay employees for business mileage in their own vehicles at the statutory mileage rates, especially if their business mileage is high. In some cases, a company van might also be appropriate. The taxable benefit for the unrestricted use of company vans is £3,230 plus a further £610 of taxable benefit if fuel is provided by the employer for private travel. Please note that changes to the rules on company cars are set to take effect from April 2018 onwards, with the appropriate percentages due to rise significantly.

We can help you to weigh up the pros and cons and decide on the most cost-effective way to organise your business motoring.



Tax planning – a family affair

When planning to minimise taxes, you should consider the importance of the whole family in helping to achieve your financial goals.

Maximising personal allowances

Each spouse is entitled to their own personal allowance (PA), which for 2017/18 is £11,500. Therefore, if your spouse or partner has little or no income, you might want to consider spreading your income more evenly to ensure that you make full use of each PA. This may involve transferring income or income-producing assets, but be mindful of the settlements legislation governing 'income shifting'. Any transfer must be an outright gift with 'no strings attached'.

Certain married couples may also be eligible to transfer 10% of their PA to their spouse. The Marriage Allowance is available to married couples and civil partners where one earns no more than £11,500 and neither pays tax at the higher or additional rate. It means £1,150 can be transferred in 2017/18, reducing a couple's tax liability by up to £230 in the current year.

And don't forget, children are also entitled to their own PA. However, income generated by parental gifts is subject to a limit of £100 (gross) per parent, unless the child has reached 18, or married.

Reducing taxable income

In some cases it might be appropriate to consider strategies to reduce your taxable income, for example by increasing contributions into a pension scheme or making charitable donations via Gift Aid. This may be beneficial if you or your spouse or partner are receiving Child Benefit, and either of your incomes are expected to be £50,000 to £60,000. Reducing income to below this level may help to eliminate the High Income Child Benefit Tax Charge, which applies at a rate of 1% of the full Child Benefit award for each £100 of income between £50,000 and £60,000. You might also want to consider adopting a similar strategy if your income is just above £100,000, as the PA is reduced by £1 for every £2 of income over this figure.

For further advice on tax planning across the family, please get in touch.



A 'lifetime' of saving...

ISAs have been subject to numerous reforms over recent years, a trend which has continued into the current tax year: 6 April 2017 saw the introduction of the new Lifetime ISA, as well as a significant increase in the annual savings limit.

We've come a long way since the first ISAs entered the market in 1999, but for many individuals these accounts still remain a popular tax-free way to save. Successive governments have introduced various new products to target particular groups of savers, from Help to Buy ISAs for first-time home buyers to the Innovative Finance ISA, which is designed to encourage peer-to-peer lending.

The new Lifetime ISA

The new Lifetime ISA is the latest addition to the ISA family. The accounts are intended to help individuals to save towards their retirement or for a first home and are available to adults under the age of 40. Those eligible can deposit up to £4,000 into a Lifetime ISA each tax year. They will then receive a 25% bonus from the government on any savings put into the account before their 50th birthday.

Both the tax-free savings and the government bonus can be used towards a deposit for a first home in the UK worth up to £450,000 at any time from 12 months after first saving into the account. Alternatively, the funds, including the government bonus, may be withdrawn from the Lifetime ISA from age 60, tax-free, for any purpose. Savers will be able to withdraw money before their 60th birthday for other purposes, but a 25% government charge will be applied to the amount of the withdrawal.

The current rules

The overall annual subscription limit for ISAs increased to £20,000 for 2017/18 (up from £15,240 in 2016/17).

Individuals can invest in any combination of cash or stocks and shares up to the overall annual subscription limit. However, a saver may only pay into a maximum of one Cash ISA, one Stocks and Shares ISA, one Innovative Finance ISA and one Lifetime ISA. You have until 5 April 2018 to make your 2017/18 ISA investment.

An additional ISA allowance is available for spouses or civil partners when an ISA saver dies. The additional ISA allowance is equal to the value of a deceased person's accounts at the time of their death and is in addition to the normal ISA subscription limit. There are time limits within which the additional allowance has to be used.

Increased flexibilities introduced from 6 April 2016 mean individuals can now replace cash they have previously withdrawn from their ISA earlier in a tax year, without this replacement affecting their annual subscription limit.

2017/18 ISA limits

While there is an overriding annual subscription limit of £20,000, it is worth noting that different ISA products may have their own specific limits.

	2017/18 limits
Overall ISA subscription limit	£20,000 a year
Junior ISA	£4,128 a year
Help to Buy ISA	£200 a month, with the option to invest an additional £1,000 in the first year
Lifetime ISA	£4,000 a year with no monthly maximum amount

We can help you plan to maximise your individual wealth – please speak to us for advice.

Capital allowances: maximising the relief

If you are thinking of purchasing business equipment, you should consider whether you can make a claim 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.

'Greener' investment is encouraged through specific 100% first year allowances available for some investments, including energy-saving equipment and low CO₂ emissions cars (up to 75 g/km, reducing to 50 g/km from April 2018). Otherwise, the general rate of annual writing down allowance is 18% on the reducing balance, with an 8% allowance for certain categories, including cars with CO₂ emissions exceeding 130 g/km, long life

assets and certain specified integral features of buildings. It is worth noting that the main rate threshold for capital allowances for business cars is set to reduce to 110 g/km from April 2018. It may therefore be worth making any purchase in the current tax year before the figure falls, but please speak to us before taking action.

Typically, a purchase made just before the end of the current accounting year will mean the allowances will usually be available a year earlier than if the purchase was made just after the year end. In the same way, the disposal of an asset may trigger an earlier claim for relief or even an additional charge to tax.

We can help you to maximise claims for capital allowances – please contact us for advice.

Extracting profit (the tax-efficient way)

Having worked hard to build your business, you will naturally want to reap the financial rewards in the most tax-efficient way possible. Here we summarise some of the main strategies to consider.

Corporation tax is the tax due on a company's profits, while personal income tax generally applies to what is drawn out of the company by means of a salary, bonus or other form of remuneration.

Dividend versus salary/bonus

The question of whether it is better to take a salary/bonus or a dividend requires careful consideration, particularly in light of the recent changes to the dividends regime.

A dividend is paid free of national insurance contributions (NICs), whereas a salary or bonus can carry up to 25.8% in combined employer and employee contributions. However, a salary or bonus is generally tax deductible for the company, whereas dividends are not.

The dividend tax credit was abolished from 6 April 2016 and a Dividend Allowance (DA) of £5,000 a year was introduced. The DA charges £5,000 of the dividend income at 0% tax – the dividend nil rate. The rates of tax on dividend income above the allowance are 7.5% for basic rate taxpayers, 32.5% for higher rate taxpayers and 38.1% for additional rate taxpayers.

While there may still be benefits for a director-shareholder taking a dividend over a salary, the amount of tax saved has been reduced.

Furthermore, the government has announced its intention to cut the DA to £2,000 from 6 April 2018, meaning that it could prove more beneficial to take dividends before the 2017/18 tax year end.

Further ways to extract profit

You may want to consider some alternative means of extracting profit from your business, which might include:

- **Incorporation** – this may provide more scope for saving or deferring tax than operating as a self-employed person or partner, but be sure to talk to us first
- **Tax-free allowances** – such as mileage payments, which apply when you drive your own car or van on business journeys
- **Pensions** – employer pension contributions can be a tax-efficient means of extracting profit from a company
- **Property** – where property which is owned by you is used by the company for business purposes you are entitled to receive rent up to the market value. However, there may be tax implications to consider so care needs to be taken to weigh up the pros and cons.

We can help you devise a tax-efficient strategy that works for you and your business.

Funding your retirement

The government has sought to encourage more people to save for their retirement, with the introduction of compulsory workplace pensions.

However, if you are not in an appropriate employer scheme, it is essential to make your own arrangements.

Tax relief is available on annual contributions limited to the greater of £3,600 (gross) or the amount of UK relevant earnings, but also subject to the annual allowance, which is generally £40,000. For pension contributions to be applied against 2017/18 income they must be paid on or before 5 April 2018.

However, the annual allowance is tapered for those who have both net income over £110,000 and adjusted annual income (their income plus their own and their employer's pension contributions) over £150,000. For every £2 of adjusted income over £150,000, an individual's annual allowance is reduced by £1, down to a minimum of £10,000. Where pension savings in any of the last three years' pension input periods (PIPs) were less than the annual allowance, the 'unused relief' is brought forward.

The overall tax-advantaged pension savings lifetime allowance is £1 million for 2017/18. Where total pension savings exceed the lifetime allowance at retirement (and fixed, primary or enhanced protection is not available), a tax charge arises.

When planning for your later years, don't forget to review the other options that may be available. You might, for example, want to consider the role of your business and/or your home in boosting your retirement fund, as well as the new Lifetime ISA.

Plan now to reduce the inheritance tax bill

Inheritance tax (IHT) is currently payable where a person's taxable estate is in excess of £325,000 (the 'nil-rate band'). However, the good news is that the introduction of the new residence nil-rate band – the RNRB – means that more people may now escape the IHT net.

An overview

IHT is charged at 40% on the proportion of an individual's 'estate' exceeding the nil-rate band. An estate includes both the value of chargeable assets held at death plus the value of any chargeable lifetime gifts made within seven years of death.

Since April 2017 a new RNRB applies where a residence is passed on death to direct descendants such as a child or a grandchild. The band is initially set at £100,000 in 2017/18, rising each year thereafter to reach £175,000 in 2020/21, and is in addition to an individual's own nil-rate band.

The additional band can only be used in respect of one residential property which has, at some point, been a residence of the deceased. For estates with a net value of more than £2 million, the RNRB is tapered at a withdrawal rate of £1 for every £2 over this threshold.

It is essential to plan ahead to minimise your exposure to IHT wherever possible. Some of the key areas to consider are outlined below.

IHT exempt transfers between spouses

Transfers of assets between spouses or civil partners are generally exempt from IHT, regardless of whether they are made during a person's lifetime or on their death. In addition, both the nil-rate band and the RNRB may be transferable between spouses and civil partners. This means that if the bulk of one spouse's estate passes, on their death, to the survivor, the proportion of the nil-rate band and the RNRB unused on the first death goes to increase the total nil-rate band and RNRB on the second death.

Case Study

David dies in July 2017. His share in the family home is valued at £90,000, which he leaves to his daughter. The rest of his estate passes to his spouse Elaine. Elaine dies in 2020/21 with an estate worth £750,000, including her share in the family home, worth £130,000. Her estate is inherited by her children. No lifetime gifts were made by either spouse.

On David's death £100,000 of the RNRB is available, of which £90,000 is used (90%), leaving 10% available to carry forward to Elaine. Subsequently, on Elaine's death the RNRB is now worth £175,000. Elaine's estate will be able to claim a RNRB of £192,500 (100% + 10% x £175,000), representing her own RNRB and 10% from David. As her share in the property is worth less than this, the claim is restricted to £130,000.

Other exempt transfers include:

- small gifts (not exceeding £250 per tax year, per person) to any number of individuals
- annual transfers not exceeding £3,000 (any unused amount may be carried forward to enhance the following year's exemption)
- certain gifts in consideration of marriage or civil partnership
- normal expenditure out of income
- gifts to charities.

Lifetime gifts

A programme of lifetime gifts can also significantly reduce the IHT liability on your estate. As long as you survive the gift by seven years and no longer continue to benefit from the gift yourself, it will escape IHT. Gifts also have the advantage of allowing you to witness your family members benefitting during your lifetime.

A discount, known as taper relief, can also apply where lifetime gifts were made between three and seven years before death. Please note that the discount applies to the tax on the gift rather than the gift itself.

Take advantage of reliefs of up to 100%

Many IHT reliefs are available, including relief on business and agricultural property, which effectively takes most of such property outside the IHT net, although detailed conditions apply.

Trusts

Trusts can be used to help maintain a degree of control over the assets being gifted, which is especially useful in the case of younger recipients. Life assurance policies can be written into trust in order that the proceeds will not form part of the estate on your death.

Your Will

It is particularly important to review your Will following changes in your personal or family circumstances or the introduction of significant new tax rules, such as the RNRB.

We can help you plan to minimise the IHT due on your estate, but the sooner you act, the better.

My Year End Checklist

- Maximise allowances across the family
- Make the most of my 2017/18 ISA allowance
- Discuss ways of extracting profits from my business at the smallest tax cost
- Find out how the timing of dividends and bonuses could reduce my tax bill
- Carry out a review of my pension arrangements
- Put in place a tax-efficient gifting strategy
- Review my estate plan and my Will following changes to tax law
- Discuss ways of improving cash flow
- Send my business and personal records to my accountant in plenty of time

We are here to help...

Make good use of us! This guide is designed to help you identify areas that might have a significant impact on your tax planning. Please consult us early for help in taking advantage of tax-saving opportunities. We will be delighted to assist you.