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Could you save tax ahead of the 5 April year end?

With the end of the 2017/18 tax year rapidly approaching, it is advisable to begin planning now in order to minimise your tax bill as we head into the new financial year. This factsheet considers ways in which both your business and personal finances can be structured so that they are as tax-efficient as possible, and also takes into account tax changes set to come into effect from 2018/19 and beyond.

Make use of your personal allowance

Each individual is entitled to their own personal allowance (PA), which is set at £11,500 for 2017/18. You potentially stand to benefit if your partner or spouse has little or no income, as you could opt to spread your own income more evenly to take advantage of each person's PA. In order to achieve this, you may wish to transfer income or income-producing assets. However, you should be wary of the legislation governing 'income shifting': any transfer must be an outright gift, given with 'no strings attached'.

Additionally, some married couples are able to transfer 10% of their PA to their spouse under the Marriage Allowance. This 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. In 2017/18, £1,150 can be transferred, reducing a couple's tax liability by up to £230 in the current tax year.

Children are also entitled to their own PA. Income generated via parental gifts, however, is subject to a limit of £100 (gross) per parent, assuming the child is under the age of 18 and has not married. Beyond this limit, parents of minors are subject to tax on this income.

Take note!

An increase in the PA was announced in the 2017 Autumn Budget. From April 2018, the PA will rise from £11,500 to £11,850. The higher rate threshold, excluding the PA, will rise to £34,500.

It is possible to allocate the PA across various sources of income in whichever manner yields the lowest tax liability.

To learn how the rise in the PA may affect you and your finances, or how your PA can best be utilised, please get in touch with us.

Review your company car arrangements

Company cars are useful business tools for many business owners. However, they do have their cons, and they may not always be the most tax-efficient option.

It is important to ensure that your business motoring arrangements are organised in the most tax-efficient way possible. This will depend on your individual circumstances, and many factors will come into play, including the annual mileage, CO_2 emissions, the age of the car, the type of fuel it uses and the retention period.

In 2017/18, 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). One aspect to consider is that vans (or similar vehicles not defined as cars) only attract a fixed level of benefit (£3,230 for 2017/18), with accompanying fuel being a fixed benefit of £610.

Take note!

From April 2018 the benefit-in-kind rates for cars will increase significantly, with further rises planned in 2019 and 2020. The increases are likely to result in cost rises for employers providing company cars to their employees.

In addition, from 6 April 2018, the taxable diesel car benefit for diesel cars will rise from 3% to 4%, and it will be removed altogether for diesel cars which are certified to the Real Driving Emissions 2 (RDE2) standard.

Take profits tax-efficiently

You work hard to ensure your business remains successful and will want to enjoy the rewards that success brings in the most tax-efficient manner possible.

You may wish to extract profits by incorporating the business, which could provide more scope for deferring or saving tax than operating as self-employed or as a partner. Alternatively, you might want to claim tax-free allowances, such as mileage payments, which apply when your own car or van is driven on business journeys. As separate legal entities, companies can generally offer much flexibility with tax planning, as well as providing other non tax-related benefits, such as risk mitigation.

Furthermore, and an example of such planning opportunities, employer pension contributions can prove to be a tax-efficient way of extracting profit from your company, and this is something you may wish to take into account.

The age old question of whether it is more beneficial to take dividends over a salary or bonus is one that can be answered by reviewing your personal financial circumstances. Nonetheless, the decision requires careful consideration before you take any action.

Dividends are paid free of national insurance contributions (NICs), whereas a salary or bonus may carry up to 25.8% in combined employer and employee NICs. A salary or bonus is, however, tax deductible for the company, whereas dividends are not; also a salary/bonus counts as 'relevant earnings' for pension purposes, whereas dividends do not, which may affect pension planning.

In April 2016, the dividend tax credit was abolished and was replaced by a new Dividend Allowance (DA). The DA charges £5,000 of dividend income at 0% tax, known as the dividend nil rate. The DA exists in addition to a taxpayer's PA and savings allowances. For basic rate taxpayers, the rate of tax on dividend income above the allowance is 7.5%, whilst for higher rate taxpayers the rate is 32.5%, and for additional rate taxpayers the rate is 38.1%.

Take note!

The DA is set to be reduced from £5,000 to £2,000 in April 2018. It could therefore prove to be beneficial to take dividends before the end of the 2017/18 tax year.

Meanwhile, if you are a saver and expect to be affected by the cut in the DA, you might want to transfer some shares to your spouse or civil partner to utilise each person's DA. It may also be worth considering investing in an Equity ISA, but do speak to an expert before taking action.

Consider your retirement plans

The government is seeking to encourage more individuals to start saving for their retirement, and has implemented a range of compulsory pensions measures. However, if you are not in an appropriate workplace scheme, you may wish to begin planning for your pension now, to ensure that you enjoy a comfortable retirement.

Annual contributions limited to the greater of £3,600 (gross), or the amount of UK relevant earnings (subject to the annual allowance, which is currently £40,000), are eligible for tax relief. Pension contributions must be paid on or before 5 April 2018 for them to be applied against 2017/18 income.

Those with both net income over £110,000 and adjusted annual income (their income plus their own pension contributions and their employer's pension contributions) over £150,000 will see their annual allowance tapered. For every £2 of adjusted income over £150,000, a taxpayer's annual allowance is reduced by £1, to a minimum of £10,000. The 'unused relief' is brought forward where pension savings in any of the last three years' pension input periods (PIPs) were less than the annual allowance.

Meanwhile, the lifetime allowance for tax-advantaged pension savings is £1 million in 2017/18. A tax charge arises where total pension savings exceed the lifetime allowance at retirement, provided that fixed, primary or enhanced protection is not available.

Take note!

The pensions lifetime allowance is set to increase in line with the Consumer Prices Index (CPI) to £1,030,000 for 2018/19.

Utilise savings vehicles

Despite offering relatively low interest rates, for many people ISAs are still a popular tax-free method of saving. Those wishing to save now have a plethora of ISAs available to them, including the Help to Buy ISA, the new Lifetime ISA and the Innovative Finance ISA, which is designed to encourage peer-to-peer lending.

The overall annual subscription limit for ISAs is £20,000 for the 2017/18 tax year, up from £15,240 in 2016/17. Savers are permitted to invest in any combination of cash or stocks and shares, up to the annual subscription limit. However, only one Cash ISA, one Stocks and Shares ISA, one Innovative Finance ISA and one Lifetime ISA may be paid into, and savers have until 5 April 2018 to make an investment for 2017/18.

If an ISA saver dies, an additional ISA allowance is available to their spouse or civil partner. This additional allowance is equal to the value of the deceased person's accounts at the time of their death, and is in addition to the normal ISA subscription limit. Time limits apply to the additional allowance, and it must be used within the specified time frame.

From 6 April 2016, increased flexibilities allow individuals to replace cash they have previously withdrawn from their ISA earlier in a tax year without the replacement affecting their annual subscription limit.

It is worth noting that the various ISA products have different limits. In 2017/18, the overall ISA subscription limit is £20,000, whilst the Junior ISA (JISA) subscription limit is £4,128 per year. The Help to Buy ISA limit is £200 a month, with the option to invest an additional £1,000 in the first year. Meanwhile, the Lifetime ISA limit is £4,000 per year, with no monthly maximum.

Take note!

The ISA subscription limit for 2018/19 will remain unchanged at £20,000. The annual limit for JISAs and Child Trust Funds will rise to £4,260.

If you require further support or advice on tax-efficient planning strategies to consider ahead of the 5 April year end, please do not hesitate to contact us.