



# Cobley Desborough

chartered certified accountants-chartered tax advisers

Artisans' House, 7 Queensbridge, Northampton NN4 7BF

Telephone: 01604 823560 Facsimile: 01604 823588 Email: enquiries@cobdes.co.uk

www.cobdes.co.uk



## Year End Tax Planning Guide

Timing is often the key ingredient in tax planning. The period leading up to the end of the tax year on 5 April is a prime time to take stock of your finances and tax position. There may be steps which will minimise your tax liability. As always, we are happy to advise on appropriate action.

Throughout this publication, the term spouse includes a registered civil partner. We have used the rates and allowances for 2017/18.

### Buying property

First-time home-buyers got a surprise present from the Chancellor in his first Autumn Budget. From 22 November 2017, there is an exemption from Stamp Duty Land Tax (SDLT) on the first £300,000 when buying a home, where the total price of the property is not more than £500,000. 5% is payable on any amount of the purchase price in excess of £300,000.

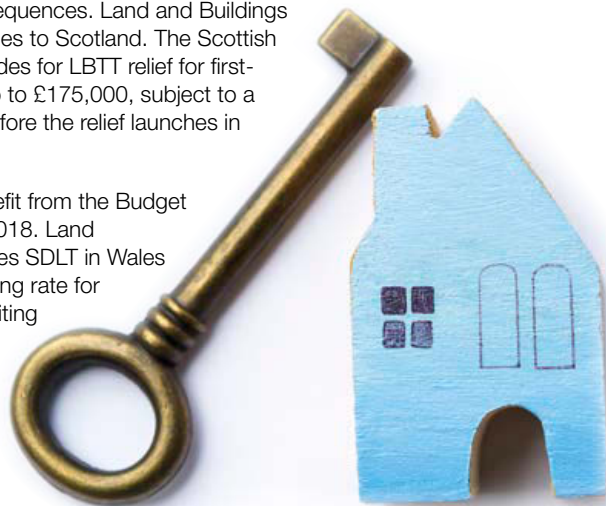
#### Tip

Many parents help when it comes to buying a first property for children. To take advantage of the SDLT exemption, parents need to be excluded from part ownership of the property (assuming they have bought a home before), or the exemption will be lost.

### Scotland and Wales

With devolved taxes, buying a property in Scotland and Wales can bring different tax consequences. Land and Buildings Transaction Tax (LBTT) applies to Scotland. The Scottish Draft Budget 2018/19 provides for LBTT relief for first-time buyers of properties up to £175,000, subject to a government consultation before the relief launches in 2018/19.

Welsh first-time buyers benefit from the Budget SDLT relief until 31 March 2018. Land Transaction Tax (LTT) replaces SDLT in Wales from 1 April 2018. The starting rate for LTT will be £180,000, benefiting not just first-time buyers, but other homebuyers in Wales. A higher rate, of 3% over standard stamp duty land tax rates for additional residential properties, also applies to purchases in Scotland and Wales.



### Dividend Allowance: don't lose out

With the introduction of the £5,000 'tax free' Dividend Allowance from 6 April 2016, there has been a dividend regime benefiting those receiving relatively small amounts in dividends. But there's change on the way which is not such good news. From 6 April 2018, the Dividend Allowance falls from £5,000 to £2,000, impacting personal and family companies where a large part of the profits is extracted as dividends.

#### Change for investors

The cut to the Dividend Allowance will affect dividend-paying shares and investment funds held outside Individual Savings Accounts (ISAs) or pensions. Be aware of your ISA entitlement: £20,000 for 2017/18.

#### Tip

Those with dividend income from shares-based investments could consider strategies to minimise the effects of the change – for example by maximising ISA income (see Tax efficient investments). Dividend growth is tax free within an ISA wrapper.

# Tax saving tips for the family

Each spouse is taxed separately, so a key element in tax planning is to make the best use of the personal allowance; the starting and basic rate tax band; Savings Allowance (SA) and Dividend Allowance. You can also think about gifts of assets to distribute income more evenly – always ensuring gifts are outright and unconditional.

In the tax year 2017/18, the personal allowance is £11,500, and the basic rate band is £33,500. With the personal allowance, the threshold at which taxpayers start paying higher rate tax becomes £45,000.

In Scotland, the story is slightly different. Other than for savings and dividend income (where the £33,500 basic rate band applies), the basic rate income tax band for Scottish residents is £31,500. This means that Scottish taxpayers will generally pay higher rate tax if their income (other than savings and dividend income) exceeds £43,000, or if their total income exceeds £45,000. Additional rate tax is payable on taxable income above £150,000 for all UK residents.

## Using allowances

Currently, a transfer of just £1,000 of savings income from a higher rate (40%) tax-paying spouse, who has used their SA in full, to a basic rate spouse with no other savings income may save up to £400 a year.

### Tip

You can transfer part of the personal allowance between spouses. A marriage allowance of £1,150 for 2017/18 can be transferred between spouses, but only where neither spouse pays tax above the basic rate.

If you get the blind person's allowance (£2,320 in 2017/18), you can also transfer this to a spouse if you don't pay tax, or can't use all the allowance.

Income from assets jointly owned by spouses is usually shared equally for tax purposes. This applies even where the asset is owned in unequal shares, unless you make an election to split the income in proportion to the ownership of the asset. Dividend income from jointly owned shares in 'close' companies is an exception, being split

according to actual share ownership. Close companies are broadly those owned by the directors, or five or fewer people.

## Make it a family business

Self-employed? Run a family company? Think about employing your spouse or taking them into partnership, and thus redistributing income. But make sure such arrangements are commercially justifiable: HMRC may query arrangements that aren't solidly grounded in reality. And remember that National Minimum Wage/Living Wage rules could come into play. Depending on how a company is structured, there could also be pensions auto-enrolment consequences, too.

### Tip

To make the arrangement work, ensure:

- wages are actually paid: they're not just bookkeeping entries
- that your spouse plays an active part in the business
- that wages aren't unrealistically high.

## Child Benefit: High Income Charge

If you get Child Benefit, and either you or your live-in partner (widely defined) have yearly income over £50,000, you may have to pay back some or all of the benefit through High Income Child Benefit Charge. It may be possible to reduce your income for Child Benefit purposes in a variety of ways. These include making additional pension contributions or charitable donations, or reviewing how profits are shared and extracted from the family business. Please do contact us for further advice.

# Pension contributions

Pensions can provide significant planning opportunities, but the rules are complex, and it is worth taking advice to maximise the benefits.

Autumn Budget 2017 confirmed more generous limits for the Lifetime Allowance for pensions - the 2017/18 £1 million Lifetime Allowance rises to £1,030,000 for 2018/19. This is the ceiling on the value of pension funds from which benefit can be drawn without incurring an extra tax charge. The annual allowance will not change, remaining at £40,000. This is the maximum you can contribute to a pension and still get tax relief.

### Tip

In many circumstances, you may have unused annual allowances from the three previous years which can be utilised in 2017/18. Please talk to us for more advice here.

Remember all individuals, including children, can obtain tax relief on personal pension contributions of £3,600 (gross) each year without reference to earnings: also, that for directors of family companies, it can be advantageous for the company to make employer pension contributions.

# Giving to charity

Charitable donations made under the Gift Aid scheme allow a charity to claim back 20% basic rate tax on any donations. And if you're a higher rate taxpayer, or additional rate taxpayer, you can end up with money back in your pocket.

Donors who are higher rate taxpayers can claim back the tax difference between the higher rate and basic rate on the donation. This way, a cash gift of £80 will generate a refund of £20 for the charity, which receives £100. Donors can claim back tax of £20, making the net cost of the gift only £60.

Tax relief against 2017/18 income is possible for charitable donations made between 6 April 2018 and 31 January 2019, providing the payment is made before filing the 2017/18 tax return.

### Tip

Always remember to record charitable gifts made.

# Children

Children have their own allowances and tax bands, as well as their own capital gains tax annual exemption, and in some cases, there can be a tax saving by transferring income producing assets to a child.

## Tip

Consider transfer of assets from other relatives such as grandparents, and/or employing teenage children in a family business to use personal allowances and the basic rate band.

## Comment

Transferring assets to a child is generally ineffective where the source of the asset is a parent and the child is under 18. Here the income would remain taxable on the parent unless income arising amounts to no more than £100 gross per annum.

## Tax free savings

A Junior ISA or a Child Trust Fund (CTF) account offer tax free savings opportunities for children. Existing CTF accounts continue alongside the Junior ISA (a child can only have one type) but can be transferred to a Junior ISA at the request of the registered contact for the CTF.

In 2017/18, both CTF and Junior ISA accounts allow parents, other family members and friends to invest up to £4,128 yearly in a tax free fund for a child. There are no government contributions and no access to the funds until the child reaches 18.



# Capital gains

Capital gains tax (CGT) can arise when disposing of assets such as a second home, antiques, jewellery and works of art, shares, or a business.

The first £11,300 of gains are CGT free, being covered by the annual exemption. Each spouse has their own annual exemption, as indeed do children. A transfer of assets between spouses may enable them to utilise their annual exemptions. Consider selling assets standing at a gain before the end of the tax year to use the annual exemption. Bed and breakfasting (sale and repurchase) of shares is no longer tax effective, but there are two variants which still work: sale by one spouse and a purchase by the other: sale followed by repurchase via an ISA. These techniques may also be used to establish a loss that can be set against any gains.

There are also useful reliefs that can reduce the rate of CGT paid, such as Entrepreneurs' Relief, and its extension, Investors' Relief.

# Family Companies

## Dividends

If you run a company, remember dividend payments can provide a tax efficient remuneration strategy, the rate of tax paid on dividends being different from other income. Basic rate taxpayers pay 7.5%, higher rate taxpayers pay 32.5% and additional rate taxpayers pay at 38.1%. Tax on other income is paid at 20%, 40% and 45%.

## Timing is key

When paying a bonus to directors, or dividends to shareholders, timing can be critical.

Date of payment affects when tax is due, and probably the rate at which it is payable, so deciding whether to make payment before or after the end of the tax year needs consideration. Careful judgment may also be required when deciding whether a bonus or dividend is more tax efficient. Please contact us to review your particular circumstances.

## Tip

Consider the payment of a pension contribution by the company. Contributions are usually free of tax and NIC for the employee (see also Pensions section). Provided the overall remuneration package is justifiable, the company should also get tax relief on the contribution.

## Loans

In many family companies, director-shareholders often have 'loan' advances made by the company – such as personal expenses paid by the company. These are accounted for via a 'director's loan account' with the company.

Loan accounts can become overdrawn, and where the overdrawn balance at the end of the accounting period is still outstanding nine months later, a tax charge arises on the company. For loans made on or after 6 April 2016, this is an amount equal to 32.5% of the loan, but where the balance is repaid, there is no tax charge.

HMRC are keen to ensure these rules are not manipulated. If you are concerned whether the tax charge could apply to your company, we would be happy to advise.

## 'Trivial' benefits can be far from trivial

The directors of close companies can receive up to £300 of 'trivial benefits' in a tax year. You can't get £300 in one go: the benefits are limited to a value of (up to) £50 a time. Examples include a meal out, plants from the garden centre, a gift card, a bottle of wine, a Christmas present – items enhancing any remuneration package.

Trivial benefits must not be a reward for services, a contractual entitlement, cash, or a cash voucher. This means a voucher that can be exchanged for cash: not a voucher that can be exchanged for goods or services.

If you haven't used your annual trivial benefit limit, there is still time to make a very beneficial end of year top-up.

# Capital allowances

## Annual Investment Allowance (AIA)

This allowance gives 100% write off on most expenditure on plant and machinery of up to £200,000 per annum from 1 January 2016. If the cost is greater, further tax relief comes via a 'writing down' allowance of 8% or 18% depending on the type of asset.

There is also a 100% allowance, sometimes called an 'enhanced capital allowance,' on some energy efficient plant and low emission cars.

AIA does not apply to cars, which are treated differently.

### Tip

The timing of tax relief can maintain positive cash flow, so please contact us for further advice when planning plant and machinery purchases.

## Motor cars

Tax relief here depends increasingly on CO<sub>2</sub> emissions, and sometimes date of purchase. Don't forget to factor in road tax cost in the year of purchase. We can help with the small print, so please get in touch.



# Landlords: plan now for interest relief restrictions

April 2017 saw the start of major change in the way individual landlords are taxed, though the full effect will not be felt until 2020/21.

Landlords can no longer deduct all the cost of finance (such as mortgage interest, interest on loans to buy furnishings, or fees incurred taking out or repaying loans or mortgages) from property income. Instead, only a proportion will be allowed. For the 2017/18 tax year, the proportion drops to 75%, with 25% given as a basic rate deduction. Further reductions are to come.

### Tip

The change may push basic rate taxpayers over the threshold where they become higher rate taxpayers. The key point is to plan ahead and compute by how much your income will increase year on year as a result of the restrictions. Please contact us if you would like further advice.

# Tax efficient savings and investments

## Individual Savings Accounts (ISAs): what's new?

ISAs are an increasingly popular investment, free of tax for both income and CGT. Investment must be made by 5 April 2018 to take advantage of limits available for 2017/18. The maximum you can save is £20,000 in 2017/18. The limit also applies for 2018/19. For Junior ISAs, the limit for 2017/18 is £4,128.

A new product from 6 April 2017 is the Lifetime ISA for 18-39 year-olds. It can be used to save for a first home, or for retirement, and there's a government top-up of 25% on your savings, up to £1,000 a year.

## Other investments attracting tax relief

A Venture Capital Trust (VCT) invests in shares of unquoted trading companies, and an investor will be exempt from tax on dividends and on any capital gains arising from disposal of the shares. Income tax relief at 30% can be available on subscriptions for VCT shares, subject to certain conditions.

The Enterprise Investment Scheme (EIS) and Seed Enterprise Investment Scheme (SEIS) allow income tax relief on new equity investment in qualifying unquoted trading companies. There have been high profile cases where claims have failed because of easily-avoided errors. Making an EIS claim where an SEIS claim should have been made, for example, can make SEIS unavailable. We are happy to advise on the rules.

Autumn Budget 2017 brought higher limits to encourage investment in knowledge-intensive companies via EIS and VCTs. These are generally effective from 6 April 2018. It also brought some tightening of the rules, such as the 'risk to capital condition' for VCTs, EIS and SEIS. This is intended to focus investment on smaller, higher risk companies. With reliefs like these, a lot can be at stake. Please do contact us for professional advice.

## Savings income: get it tax free

Savings income is income such as bank and building society interest. You can earn a certain amount of savings income tax free, thanks to the Savings Allowance (SA). For 2017/18, the SA is up to £1,000 for basic rate taxpayers, and up to £500 for higher rate taxpayers. Additional rate taxpayers do not have a SA.

SAs are in addition to the 0% starting rate of tax for savings income, which can apply for up to £5,000 of savings. However, the rate is not available if taxable non-savings income (broadly, earnings, pensions, trading profits and property income, less allocated allowances and reliefs) exceeds £5,000. Most people will not pay tax on their savings income, but if tax is payable, HMRC will look to collect any tax they think is due via PAYE tax codes where possible.

### Tip

HMRC are just starting to use previous year's savings interest data from banks and building societies for coding notices. It is always necessary to check tax codes, and all the more so, if the interest you will receive in the coming year is likely to be materially different.