Tax Planning

End of Year Tax planning – 5 April 2014

Individuals and trustees may wish to consider action before 5 April 2014 on the issues below, to save or delay tax liabilities.

- **Timing of income & deductions**
- **Pension inputs**
- **Charitable giving**
- **Timing of capital gains**
- **Tax efficient investments**
- **Inheritance Tax**

Timing of income & deductions

If your income is over £100,000, your personal allowance is reduced by £1 for every £2 over £100,000. So, for 2013/14, you will lose your personal allowance entirely if your income exceeds £118,880. For 2014/15 the threshold will be £120,000. The effect is a 60% income tax rate if your income is in the band between £100,000 and these thresholds (plus 2% NIC if applicable). If you are not domiciled and are taxed only on remittances of overseas income and gains, you do not get the personal allowance, unless your unremitted overseas income and gains total less than £2,000.

The basic rate band, above which income tax is charged at 40%, is being lowered to £31,865 for 2014/15, removing the benefit of the increase in the personal allowance for those with income over £41,940.

2013/14 is the first full year affected by the 'high income child benefit charge' (HICBC), which is tax equal to the child benefits claimed, if the claimant or the claimant's partner has income of £60,000 or more; with the charge scaled down proportionately where the income is less but still over £50,000. There is no HICBC if income is £50,000 or less.

Pension inputs

Pension inputs are contributions by you and your employer to your 'pension arrangements', including accrual of benefits in defined benefit ('final salary') schemes. The constant changes in the tax relief system for pensions make it important to review your pension arrangements, especially if you are still in a defined benefit scheme. Tax relief for your pension inputs for 'pension input periods' ending in 2013/14 is limited to £50,000, increased by any amounts by which pension inputs in the previous three years fell short of £50,000 a year. More details on this can be found here. The £50,000 limit falls to £40,000 from 6 April 2014.

Those who have an election in place that requires there to be no further pension contributions should beware of being automatically included in a workplace pension scheme.

Charitable giving

Unless your marginal tax rate will be higher for 2014/15, it is better to give by 5 April 2014 rather than later. This applies not only to gift aid donations, but also to gifts of listed securities and land, where these qualify for income tax relief. As a 'fall-back' you may elect to treat gift aid cash donations made between 5 April 2014 and the date you file your tax return (but not later than 31 January 2015), as though they were made in 2013/14 for income tax purposes.

Timing of capital gains (CGT)

Realising sufficient capital gains to utilise the annual exemption (£10,900 for 2013/14) is still worth considering. As mentioned above, non-UK domiciled individuals whose overseas income and gains are taxed on the remittance basis, do not get the annual capital gains tax exemption unless unremitted overseas income and gains are less than £2,000.

Before 6 April 2014 the capital gains tax exemption on disposal of a property which at some time has been your main residence is unaffected by its use in the final 36 months ownership. This period will be reduced to 18 months for disposals from 6 April 2014, except where the disposal is by someone who is disabled or a long term resident in a care home and who has no other residence.

From 6 April 2014 disposals of shares that result in a controlling interest in a company being held by an employee ownership trust are to be relieved from capital gains tax.

Otherwise it may be worth considering deferring a disposal which gives rise to a capital gain (and which would take you over the annual CGT exemption) until after 5 April. This would mean that CGT is then payable a year later, on 31 January 2016, rather than 31 January 2015. Deferral may also mean that you may become eligible for entrepreneurs' relief, under which gains are taxed at 10% rather than 28%. If any assets have become of negligible value, you should consider a loss claim for CGT purposes. In some circumstances income tax relief may be available instead.

Selling shares or securities to realise a gain covered by losses or the annual exemption and then buying the same shareholding within the next 30 days is caught by the anti-avoidance rules designed to prevent this so-called 'bed and breakfasting' However, these rules do not apply to shares 'reacquired' by your spouse or ISA.

Enterprise Investment Scheme (EIS) deferral relief may enable you to postpone tax on a gain which has already been made until disposal of the EIS shares. Relief is given for share subscriptions in EIS-qualifying companies up to three years after the earlier disposal.

Gains arising in 2013/14 on disposal of other assets are exempt up to an amount equal to 50% of the amount subscribed for SEIS-qualifying shares.

Tax efficient investments

Consider the following tax-aided investment opportunities:

Individual Savings Accounts (ISAs)

No tax is payable on income and gains on investments within an ISA. You can invest up to £11,520 in total in 2013/14 (increased to £11,880 in 2014/15), of which up to half may be invested in a cash ISA. You may only contribute to one cash ISA and one stocks & shares ISA in any tax year.

Venture Capital Trusts (VCTs)

Income tax relief at 30% (or, if less, the amount of your income tax liability) is available on up to £200,000 subscribed for shares in VCTs if the shares are held for at least five years. Subject to limits on the size of holdings, dividends and gains relating to shares subscribed for in VCTs are exempt.

Enterprise Investment Scheme (EIS)

Income tax relief at 30% (or, if less, the amount of your income tax liability) is available in 2013/14 on up to £1,000,000 subscribed for shares in qualifying companies, provided you are not 'connected' with the company. Any gain on their sale is exempt from CGT, if the shares are held for at least three years. Up to a further £500,000 may be subscribed in 2013/14 and claimed in 2012/13 if EIS relief was not fully used in that year. Furthermore, CGT on a gain realised up to three years earlier may be deferred by a subscription for shares in qualifying companies, even if you are 'connected' with the company.

Seed Enterprise Investment Scheme (SEIS)

This scheme is available for shares issued by smaller companies. A maximum of £100,000 subscribed can attract 50% income tax relief (or, if less, the amount of your income tax liability), which is withdrawn if the shares are realised within three years. Any gain on their sale after three years is exempt from CGT.

Inheritance Tax

There are a number of exemptions for lifetime gifts that do not depend on surviving at least seven years, which is normally the case with inheritance tax (IHT). You can give up to £3,000 each year ending 5 April, together with any part of that 'allowance' not used in the preceding year. In addition, you can give up to £250 outright to any number of recipients each year. There are special exemptions for gifts made in consideration of marriage or civil partnership; £5,000 for each of the parents of the couple, £2,500 for each grandparent or remoter ancestor, and £1,000 in other cases.

One important exemption that should not be overlooked is that for regular gifts out of income. Such gifts are exempt without upper limit provided your remaining after-tax income is sufficient to maintain your usual standard of living. Despite the change in the IHT treatment of gifts into trust, a trust may be a suitable vehicle to receive such gifts.

Lifetime gifts of assets likely to increase in value are also worth considering, as any further growth in value during your lifetime is outside your estate, even if you don't survive seven years. Bequests to charity on death are already wholly exempt. Furthermore, if bequests to charity on a death are at least 10% of the amount otherwise chargeable at 40%, the tax rate on the balance will be reduced to 36%. In some circumstances this actually makes lifetime gifts to charity less tax-efficient.

Specific advice should be obtained before taking action, or refraining from taking action, on any of the subjects covered above.

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