Tax Planning

End of Year Tax Planning – 5 April 2015

The move from one tax year to another can mean that there is an opportunity to choose the year in which income, gains or reliefs fall. This can affect the tax rate and therefore the amount of tax payable – and also the date on which liabilities must be paid.

Individuals and trustees may wish to consider the following issues before 5 April 2015 to save or delay tax liabilities.

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

Timing of income & deductions

The personal allowance which is currently £10,000 increases to £10,600 for 2015/16. However, this allowance is reduced by £1 for every £2 of your income over £100,000. So, for 2014/15, you will lose the allowance entirely if your income exceeds £120,000. For 2015/16 the threshold will be £121,200. The effect is a 60% income tax rate on your income between £100,000 and level at which the allowance is totally withdrawn. (plus 2% NIC if applicable).

The 20% basic rate band is being lowered to £31,785 for 2015/16, eating into the benefit of the increase in the personal allowance for those with income over £42,385.

The 'high income child benefit charge' (HICBC) tax is equal to the child benefits claimed, if the claimant or their partner has income of £60,000 or more. The charge is scaled down proportionately where the income is less but still over £50,000.

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.

Pension contributions

Pension inputs are contributions by you and your employer to your 'pension arrangements', including accrual of benefits in defined benefit ('final salary') schemes.

Tax relief for 'pension input periods' ending in 2014/15 is limited to £40,000. This is increased by any amounts by which pension inputs in the previous three years fell short of £40,000 a year.

If you have an election in place that requires there to be no further pension contributions, you should be wary of being automatically included in a workplace pension scheme, for example under the auto-enrolment regulations.

Charitable giving

Unless your marginal tax rate will be higher for 2015/16, it is better to give by 5 April 2015 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.

You may elect to treat gift aid cash donations made after 5 April 2015 but before you file your 2015 tax return (but not later than 31 January 2016), as though they were made in 2014/15 for income tax purposes.

Capital gains

Realising sufficient capital gains to utilise the annual exemption (£11,000 for 2014/15, and £11,100 for 2015/16) is worth considering.

However, deferring a disposal giving rise to a capital gain which would take you over the annual capital gains tax (CGT) exemption until after 5 April would mean that the CGT payment date is deferred by 12 months, from 31 January 2015 to 31 January 2016.

Deferral may also mean that you may become eligible for entrepreneurs' relief, where gains are taxed at 10% rather than 28%, because one of the conditions is that the asset must have been held for at least a year. The 'lifetime' limit on gains which can qualify for entrepreneurs' relief is £10m, but this only applies to disposals made after 5 April 2008!

Disposals of shares that result in a controlling interest in a company being held by an employee ownership trust are exempt from CGT.

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. If you still own the shares when you die the gain effectively disappears. Relief is given for share subscriptions in EIS-qualifying companies up to three years after the earlier disposal.

For acquisitions of Seed Enterprise Investment Scheme (SEIS) shares, gains arising in 2014/15 on disposal of other assets are exempt up to an amount equal to 50% of the SEIS subscription.

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.

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.

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 £15,000 in total in 2014/15, and this can all be 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 for 2014/15 on up to £200,000 subscribed for shares in VCTs provided that 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 2014/15 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 2014/15 and claimed in 2013/14 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.

Specific advice should be obtained before taking action, or refraining from taking action, on any of the subjects covered above. f you would like advice or further information, please speak to your usual Shipleys contact.

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At least two Finance Acts are expected this year and the proposals announced in the December 2014 Autumn Statement and the March 2015 Budget may not be implemented. Different changes may apply from the date they are announced.