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GUIDE TO

2016/17 YEAR END TAX PLANNING

TAKING ADVANTAGE OF PLANNING OPPORTUNITIES MEANS GETTING TAX SAVVY NOW

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Taking advantage of planning opportunities means getting tax-savvy now

Our 2016/17 Year End Tax Planning guide highlights some of the key tax planning opportunities for all stages and facets of life.

We provide suggestions for further consideration and discussion, enabling you to arrange your taxes, investments and wider financial affairs to reduce current and future tax liabilities. Please keep in mind that everyone's tax situation is different. Before implementing any of the strategies discussed here, you should obtain professional advice.

Effective tax planning is about knowing the taxes you are liable to pay and acting to legally minimise them. It is also about maximising your net income and creating opportunities to invest and save tax-efficiently.

While there is no doubt that the tax system is complex, you should not let complexity deter you from a simple goal: keeping your taxes as low as possible. In our *Guide to 2016/17 Year End Tax Planning*, we have provided some of the key areas you should consider if applicable to your particular situation.

PERSONAL ALLOWANCE

Ensure each spouse uses their full Personal Allowance for Income Tax purposes where possible. Annual income of less than currently £11,000 is not liable to tax. Spouses and registered civil partners should consider the possible transfer of income producing assets to ensure that Personal Allowances are not wasted.

PERSONAL ALLOWANCE FOR HIGH EARNERS

Your Personal Allowance goes down by £1 for every £2 that your adjusted net income is above £100,000. This means your allowance is zero if your income is £122,000 or above.

SPOUSE REMUNERATION

If a self-employed person or family company employs a spouse to assist in the running of the business, the spouse could be remunerated fairly to utilise the tax-free Personal Allowance. It is possible to set the earnings at a level whereby no tax or National Insurance Contributions will be due but entitlement to State Retirement Pension and other benefits is protected.

MINOR CHILDREN AND TEENAGERS

Minor children are entitled to Personal Allowances. There are restrictions on the amount of income that a child can derive from a parent, but gifts from other relatives can be considered. Junior Individual Savings Accounts (JISAs) can be funded by parents. Teenaged children can be employed in family businesses, providing legal restrictions and national minimum wage issues are taken into account.

INDIVIDUALS WITH NO TAXABLE INCOME

Pension contributions of up to £3,600 gross per year can be made by individuals with no taxable income. The net contribution after tax relief contributed at source by the UK Government would be just £2,880.

TAX-RELIEVABLE PENSION CONTRIBUTIONS

The Annual Allowance for making tax-relievable pension contributions is £40,000, so consideration should be made to utilising the full Annual Allowance for 2016/17 by 5 April 2017. It is also possible to carry forward unused Annual Allowances from the previous three tax years, so it may be possible to receive tax relief in the current tax year on contributions well in excess of £40,000 with a little planning.

TAX-RELIEVABLE PENSION FOR HIGH EARNERS

For high earners, the Annual Allowance definition is more complicated, but those with an annual 'adjusted income' of more than £150,000 will be reduced to as little as £10,000 for 2016/17.

PENSION LIFETIME ALLOWANCE

The pension Lifetime Allowance – the total amount of UK pension savings each individual is allowed to build up in their lifetime – is currently £1m. If you exceed the Lifetime Allowance, you could be facing a 55% tax bill. The 'flexible drawdown' pension rules now in place from 6 April 2015 onwards allow individuals the opportunity to plan their affairs to manage the level of the money they take from their pension pot to both minimise annual Income Tax liabilities and keep within the Lifetime Allowance.
A review of what you could draw down as income from your pension funds before 6 April 2017 could prove worthwhile.

TAX-FAVOURABLE INVESTMENTS

If appropriate to your particular situation, the use of tax-favourable investments such as Individual Savings Accounts (ISAs), Enterprise Investment Schemes (EIS), Seed Enterprise Investment Schemes (SEIS) and Venture Capital Trusts (VCT) should be reviewed. Up to £15,240 per person (so up to £30,480 for a married couple) can be invested in an ISA for the 2016/17 year.

TIMING OF INCOME

Taxable incomes may fluctuate from year to year as a result of one-off payments or changes in circumstances. Consideration should be given to the benefits of accelerating or deferring the taxation point of investment income and employment bonuses, and also to the timing of the payment of dividends paid out by family owned companies.

COMPANY DIVIDENDS

From 6 April 2016, company dividends are still treated as the top slice of income but will no longer be grossed up, and will be taxed at 7.5% in the basic rate band, 32.5% in the higher rate band and 38.1% in the additional rate band. However, the first £5,000 of dividends will be tax-free to the recipient, no matter which tax band you fall in.

CAPITAL GAINS TAX

It's important to consider utilising your tax-free Capital Gains Tax Annual Exemption, currently £11,100. Each spouse or registered civil partner is entitled to the exemption each year, so gifts between spouses prior to sales of assets may be tax-effective. It may be worth crystallising capital losses where gains in excess of the Annual Exemption have been made. The deferral of sales until after 5 April may see tax paid at lower rates and provide significant cash flow benefits in terms of when tax needs to be paid.

If a self-employed person or family company employs a spouse to assist in the running of the business, the spouse could be remunerated fairly to utilise the tax-free Personal Allowance.

INHERITANCE TAX

The use of and the carrying forward of the £3,000 annual exemption should be reviewed, together with other possible exemptions such as those for small gifts of up to £250 per individual, regular gifts out of normal annual income and tax-free gifts in consideration of marriage, which can range between £1,000 and £5,000 depending on the relationship with the person getting married.

REVIEW YOUR WILL

A review is due if there has been: a birth or a death; a marriage or a divorce; a move abroad; a significant change in the value of your estate; a new business or the disposal of a previous business; a retirement; or a relevant change in tax law. We can help you to work through changes to keep your estate plan up to date. ■

WANT TO EXPLORE THE OPTIONS AVAILABLE TO YOU?

We all have to pay our taxes, but within the legal framework there are numerous ways of saving tax and making sure you do not pay more than is absolutely necessary. If you would like to explore the options available to you in preparation for the 2016/17 year end, please contact us sooner rather than later.

LOOKING TO STRUCTURE YOUR AFFAIRS MORE TAX-EFFICIENTLY?

The larger your income or the greater your wealth, the higher the taxes you are likely to pay. Whether you are a business owner or simply looking to structure your affairs more tax-efficiently, you should obtain professional advice.

To discuss your plans please contact us.

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