Chartered Accountants, Registered Auditors & Chartered Tax Advisers

Tax Planning Tips 2014/15

Introduction

Taxes, as we know, are one of the two great inevitables in life, but you can manage your financial affairs to minimise the impact of tax on you, your family and your business. In fact, the Government actually encourages you to make the most of the reliefs and allowances available.

While aggressive tax avoidance is now being targeted by HM Revenue & Customs, you can still ensure your own financial well-being by saving tax wherever possible.

When considering any tax planning there are four important points to bear in mind:

1. *If a scheme sounds too good to be true, it probably is.* In particular, do not get involved in a tax scheme that relies on the non-declaration of income or capital gains, as that would be illegal. A general anti-abuse rule counteracts tax advantages arising from abusive tax avoidance arrangements.

2. *Bear in mind that the tax effect of a decision is only one element to consider.* The commercial, practical and financial implications of the decision should always be taken into account. For example, you should not let the tax tail wag the investment dog.
3. *Tax planning can be undone by not submitting the correct tax information on time, or not paying your tax liabilities by the due date.* In either case HMRC will levy penalties which could exceed the tax due, or wipe out any tax savings made. You could also find HMRC pays closer attention to your tax affairs in the future.
4. *Tax rules and rates change regularly.* The tax regime is subject to frequent changes, so you need to review your financial situation regularly. Last year's tax saving idea could be counter-productive this year.

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£ Tip

If a property has been your nominated main home at any time, the gain for the last 18 months of ownership is free of tax.

You and yours – using the tax rules

1 Make sure you tell HM Revenue & Customs (HMRC) which of your properties should be treated as your main home for tax purposes when you buy a second (or even third) home. The property that has always been your main home is free of capital gains tax (CGT). Any other property where you have lived for part of the time will attract a tax exemption for the periods you have lived there and have elected for it to be your main home. If a property has been your nominated main home at any time, the gain for the last 18 months of ownership (36 months if moving into care) is free of tax, even if you do not live there during that final period.

2 If you are getting married or entering into a civil partnership, and you both own separate properties which you continue to occupy for some period, you need to nominate one of them as your main home within two years of your marriage/civil partnership. You can then have only one main home between you for tax purposes. So nominate the one that is likely to make the best use of your CGT property exemption, otherwise HMRC will designate the property that you occupy the most as your main residence.

3 If you own a trading company, you can reduce the CGT payable on a future sale by spreading the shares between yourself and your spouse/civil partner. If you both hold at least 5% of the ordinary shares, have done so for the 12 months before the sale and are either employed by the company, or hold the position of director or company secretary, you should both qualify for entrepreneurs' relief on any gains made when the company is sold. This relief applies a reduced rate of CGT of 10% to the first £10 million of lifetime gains made per person.

4 Contribute up to £4,000 each year into your child's Junior ISA (JISA). The fund builds up free of tax on investment income and capital gains until the child reaches 18, when the funds can either be withdrawn or rolled into an adult tax-free New ISA. Relatives and friends can also contribute to the child's JISA, as long as the £4,000 limit is not breached. Any child aged under 18 who lives in the UK can have a JISA if they were not entitled to a child trust fund account. The £4,000 limit applies from 1 July 2014. If you make a contribution between 6 April 2014 and that date you will initially be subject to a limit of £3,840.

5 If your income is more than £60,000, and you or your partner claim child benefit, you will be subject to a tax charge to claw back the full amount of the benefit. If your income lies between £50,000 and £60,000, the child benefit

£ Tip

Rewrite your will to ensure that at least 10% of your net estate is left to charity. This will reduce the IHT rate on your taxable estate from 40% to 36%.

tax charge will be equivalent to 1% of the child benefit for every £100 of income over £50,000. The tax charge applies to the higher earner, irrespective of who claims the benefit. To avoid the tax charge you can either stop claiming child benefit, or reduce your income below £50,000.

6 **Check your PAYE tax code.** Many PAYE tax codes are incorrect when issued. HMRC may have included an estimate of your unearned income that means you will pay tax on that income earlier than you would if it was assessed through your self-assessment tax return. You can ask HMRC to remove this estimated income and also correct any other errors.

7 **If your marriage is permanently breaking up, aim to divide up the valuable assets, such as shares and land, as soon as possible.** If you complete any such asset swaps in the tax year in which you separate from your spouse, you will not have to pay CGT based on the market value of those items. If you delay until the next tax year, the tax charge could be painful.

8 **Check how much you are paying in national insurance contributions (NICs).** If you have more than one job, or if you are both employed and self-employed at the same time, you may overpay NICs during the tax year. You can then reclaim any overpaid NICs from HMRC after the end of the tax year. You can also prevent overpayment by deferring payment of NICs on one of your jobs if you complete the form in the HMRC leaflet CA72A (employees) or CA72B (self-employed).

Estate planning – handing on your wealth

9 **Make a will and review it regularly.** If you die without making a will, your assets will be divided between your relatives according to the intestacy rules. This will be after IHT is paid at 40% on any value above £325,000 that goes to anyone other than your spouse or civil partner. If you have no surviving relatives, the whole of your estate will go to the Crown (i.e. the government).

10 **Rewrite your will to ensure that at least 10% of your net estate, after deduction of the nil rate band of £325,000, is left to charity.** This will reduce the IHT rate on your taxable estate from 40% to 36%. The exact calculation of your net estate is quite complicated, so take professional advice when drawing up or amending your will.

£ Tip

Both you and your spouse or civil partner can each give £3,000 every tax year in addition to gifts you make out of your regular income.

11 **Rather than just living together as a couple, get married or register a civil partnership.** Otherwise, your surviving partner will have to pay IHT on anything inherited from you that exceeds the nil rate band, currently £325,000. Do not forget that there are some potential tax and other costs to consider. But your spouse or civil partner can inherit your unused nil rate band when you die, potentially saving even more tax (see also Tip 16).

12 **Invest in business assets to save IHT.** Any shares you own in unquoted trading companies, including companies listed on the AIM stock exchange, are free of IHT once you have held them for two years. You do not need to be involved in the company for the shares to qualify. Any interest you hold in an unincorporated business will generally also be free of IHT.

13 **Make regular gifts out of your annual income to whomever you choose.** As long as you establish a pattern of gifts that can be shown to be covered by your net income, without reducing either your capital assets or your normal standard of living, these gifts will be free of IHT. The recipients of the gifts need not be the same people each year.

14 **Make gifts totalling £3,000 in each tax year from your capital resources.** These gifts are free of IHT and, if you forget to make your £3,000 gift one year, you can catch up in the next tax year by giving a total of £6,000. Remember, both you and your spouse or civil partner can each give £3,000 every tax year in addition to gifts you make out of your regular income.

15 **Use the IHT marriage exemption for gifts.** If your son or daughter is about to marry or register a civil partnership, then you and your spouse or civil partner can each give them £5,000 in consideration of the marriage, and the gift will be free of IHT. This is in addition to any smaller gifts you make out of your regular income each year. The marriage exemption can also be combined with your £3,000 a year annual exemption to allow you to make bigger exempt gifts. The IHT-free gift you can make on the occasion of a grandchild's wedding is £2,500. Civil partnerships attract the same exemptions.

16 **Check whether your elderly relatives have ever been widowed.** Widows and widowers inherit the unused proportion of their late spouse or civil partner's nil rate band – even if the spouse died many years ago. This could mean that up to an extra £325,000 of the estate will be tax-free.

£ Tip

You might find that the gain on let property is less than your capital gains exempt amount (£11,000 for 2014/15), and is therefore tax free.

Your property – making the most of bricks and mortar

17 The next time you move house, you could let out, rather than sell, your old home so that the rent covers the mortgage interest and other expenses. When you eventually sell this property, the proportion of the gain relating to the period when it was occupied as your main home will be exempt from tax. In addition, you can claim a further tax exemption of up to £40,000 per owner because the property has been let. With the benefit of all these reliefs, you might find that the gain on the let property is less than your capital gains exempt amount (£11,000 for 2014/15), and is therefore tax free. Any remaining gain will be subject to CGT.

18 Pass on a let property to fund future income needs. Students need an income stream. A let property can provide this. The gift of the property is treated as a sale at market value for tax purposes. But where the current value is low, the gain will be small and may be covered by your annual exempt amount of £11,000.

19 Keep your tenants warm and save tax at the same time. As a landlord, you can claim a special tax allowance of up to £1,500 per property, giving you immediate tax relief for your expenditure on energy-saving insulation. This includes loft, wall, floor or hot water system insulation installed in residential properties. This is a one-off allowance for expenditure made before 6 April 2015.

20 Rent out rooms in your own home. The income is completely tax free up to £4,250 per property. If the rent is higher than this, check whether the normal approach of paying tax on the income after deducting allowable expenses is more tax-efficient than claiming the exemption of £4,250.

21 If you run a commercial holiday lettings business check that each property is available for letting for at least 210 days a year, and aim to let each property on short-term holiday lets for at least 105 days a year. If these conditions are not met, your holiday lettings business may lose a number of tax reliefs. Where you let a number of holiday properties, you can average the number of days of actual letting across all your UK properties, or across properties let in other European Economic Area (EEA) countries. There is also a grace period election that can be used for up to two tax years if the letting tests are not met.

£ Tip

Carry forward unused allowances from the three previous tax years, and use this to cover pension contributions greater than the current year's annual allowance.

Retirement planning – preparing for the future

22 **Employers' pension contributions save NICs.** Where your employer pays you a salary which you invest in your pension, both you and your employer have to pay NICs. If your employer pays a contribution directly into your pension scheme, the employer receives tax relief for the contribution and there are no NICs to pay – generating a saving both for the employer and for you. You could arrange with your employer to cover the cost of the contributions by foregoing part of your salary or bonus. However, HMRC is very particular about how this should be done in order to be tax-effective.

23 **Take advantage of your annual allowance for making pension contributions – tax relief is available up to your highest tax rate.** Your annual allowance for 2014/15 is £40,000 plus any unused allowance brought forward from the previous three tax years (see Tip 25). This allowance must cover any pension contributions you make yourself, and any contributions paid for you by your employer. Contributions made in excess of your annual allowance will attract a tax charge at your marginal tax rate.

24 **Arrange for your company to buy your shares to help solve your business succession problem.** On retirement, you may want your younger colleagues to make you a cash offer for your shares, but they may not have sufficient cash resources to do so. One solution is for the company itself to buy your shares and then cancel them, leaving the remaining shareholders controlling the company. You end up with cash, and up to £10 million of the gain should be taxed at no more than 10% – assuming your disposal qualifies for entrepreneurs' relief.

25 **Carry forward of unused annual pension allowances.** You can carry forward unused allowances from the three previous tax years, and use this to cover pension contributions greater than the current year's annual allowance. The allowance in 2011/12, 2012/13 and 2013/14 was £50,000 for each year, so in theory this could allow contributions of up to £190,000 to be made in 2014/15 (the allowance is now £40,000) without creating any tax charge. The calculations can be complex, so it is often best to undertake such planning some time before the end of the tax year.

£ Tip

Transferring funds into a NISA early in the tax year will maximise the amount of tax-free income arising.

Savings and investment – helping your money work for you

26 **Take advantage of the increased new individual savings account (NISA) investment limit that applies from 1 July 2014, and generate tax-free income and capital gains.** The maximum annual amount which can be invested in NISAs is £15,000 (2014/15). You can put the whole £15,000 into a cash NISA, or into a stocks and shares NISA, or any combination of the two as desired. If you made a 2014/15 investment prior to 1 July 2014, then lower limits will initially apply. Transferring funds into a NISA early in the tax year will maximise the amount of tax-free income arising. As there are many NISAs on the market, it is worth shopping around to find the best deal, taking account of the rates of return and fees charged.

27 **Invest in a small trading company under the Seed Enterprise Investment Scheme (SEIS) and gain 50% income tax relief on an investment of up to £100,000.** Capital gains on SEIS shares are exempt from tax if the shares are held for at least three years, and a tax exemption is available for 50% of any capital gains that are reinvested. If the higher rate of CGT is saved, the overall tax relief is therefore 64% (50% plus half of 28%). But be warned – investing in small companies can be very risky and you must hold SEIS shares for three years in order to retain your income tax credit.

28 **Obtain a 30% income tax credit by subscribing for shares in a Venture Capital Trust (VCT) or an Enterprise Investment Scheme (EIS).** In 2014/15 the maximum subscription in VCT shares is £200,000. The shares are also exempt from CGT when they are sold. A subscription in EIS shares costing up to £1 million qualifies for the income tax credit. In addition, you can defer tax on your capital gains by reinvesting an unlimited amount of gains in EIS shares. VCT and EIS shares can be risky investments and you must hold VCT shares for at least five years and EIS shares for three years in order to retain your income tax credit.

29 **Watch your capital gains and losses.** If you realise capital gains and losses in the same tax year, the losses are offset against the gains before the annual exempt amount (£11,000 in 2014/15) is deducted. So losses will be wasted if gains would otherwise be covered by the exempt amount. Consider postponing losses until the following tax year or alternatively realising more gains in the current year.

£ Tip

A single unified rate of corporation tax from April 2015 will mean that in future, companies will pay tax at just 20% regardless of their level of profits.

Your business – making the rules work for you

30 **Think about how you should start your business – as a sole trader, partnership or limited company.** Companies still have tax advantages (see Tip 31), but generally only when the business has started to make a profit. With a new venture, you might expect to make losses in the early years. As a sole trader or partnership, your initial losses can be carried back to set against your income in the three tax years before the year in which the loss arose. The use of losses may be restricted depending on the size of the losses and how much income you have.

31 **Incorporation can be worthwhile.** Based on current personal and corporation tax rates, a business with profits of £40,000 can save tax and NICs of some £3,000 if operated through a company, compared to operating as a sole trader, provided you extract most of your earnings as dividends. Furthermore, the introduction of a single unified rate of corporation tax from April 2015 will mean that in future, companies will pay tax at just 20% regardless of their level of profits.

32 **Do not delay telling HMRC about your new business.** Sometimes it is difficult to know exactly when a business starts or when a hobby turns into a business. Selling items through online auctions can be fun, but as soon as you start buying items specifically to sell you are deemed to be trading. You will then need to register your business through the HMRC website or risk a penalty of up to 100% of the tax due. Some useful information can be found in HMRC's leaflet SE1.

33 **Switch to the flat rate VAT scheme for small businesses if your business has few costs and overheads.** Under this scheme the VAT you pay is calculated by multiplying your gross sales by a flat rate determined by the business sector you work in. Purchases and expenses are ignored, so the scheme is very simple to use. However, your turnover excluding VAT must be less than £150,000 a year and there are complications if you let property in the same name that you trade under. When you use the flat rate VAT scheme in your first year of VAT registration, the applicable flat rate is reduced by a further 1% for that year, so the savings are even greater.

£ Tip

All businesses can deduct against taxable profits the full cost of the first £500,000 spent on plant and machinery each year until 31 December 2015.

34 **Purchasing a car in your own name rather than having a company car should reduce your tax.** As a company car driver, you are taxed on a percentage (5% to 35%) of the original list price of the car, although zero emissions vehicles have no tax charge for the driver until the end of the current tax year (6 April 2015). There is no upper limit on the list price, and the percentage used is due to increase over the coming tax years.

35 **Plan the timing of purchases of new plant and machinery in order to maximise the benefit of the annual investment allowance.** All businesses can deduct against taxable profits the full cost of the first £500,000 spent on plant and machinery (other than cars) each year, but only until 31 December 2015. Where more than this annual investment allowance is spent, the excess will attract writing down allowances at 18% or 8%. Before 6 April 2014 (1 April for companies) the investment limit was £250,000.

36 **Make the best use of trading losses.** A loss made by a company can be set against profits of the previous 12 months, but only after making a current-year claim first. A loss made by an unincorporated business can be claimed against total income for the year of the loss and/or the previous year. A tax rebate will be available where a loss is carried back. As noted in Tip 30, the amount of the loss used in this way by an individual could be restricted.

Employment and remuneration – looking after your employees

37 **Set up a tax-efficient share scheme for employees.** Share schemes can create taxable benefits for employees, but if share options are granted under an approved share scheme or enterprise management incentive scheme, there is no tax payable by the employees until the shares are sold. The annual CGT exempt amount (£11,000 in 2014/15) and the low rates of CGT at 18% and 28% make share options potentially attractive benefits for many employees.

£ Tip

A £500 exemption is to be introduced for the cost of medical treatment that helps an employee return to work following injury or ill-health.

38 Reimburse the costs of a new employee's moving expenses. You can reimburse up to £8,000 of a new employee's moving costs tax-free if they have to move house to take up the employment. If you pay more than this amount, the excess is taxed as part of the employee's salary. This tax relief only applies if the new employee does not already live within a reasonable daily travelling distance of their new place of work.

39 Provide your employees with an annual health check and eye test. The health check is free of tax, but any medical treatment will generally be a taxable benefit (although a £500 exemption is to be introduced for the cost of medical treatment that helps an employee return to work following injury or ill-health). The eye test is also tax free if the employee needs to use a computer screen or similar display screen as part of their job. Any special corrective lenses required to use that equipment can also be provided tax free.

40 Pay employees £5 tax free each time they need to stay away from home overnight. This tax-free amount can be in addition to the cost of accommodation and meals that can be reimbursed if receipts are produced. If the overnight stay is abroad, the tax-free amount is £10 a night.

41 Encourage car sharing with tax-free payments to employees. When your employees travel to work-related training courses or make other business journeys using their own car, pay the driver an extra tax free 5p a mile for each fellow employee they take as a passenger.

42 Provide your employees with a free work bus, or make a direct contribution to an existing local public bus service. Paying for employees to get to work is normally a taxable benefit, but the provision of a work bus is tax free if the vehicle is designed to carry at least nine passengers. The bus can also be used to take employees to the local shops at lunchtime with no additional tax charge. However, the provision of transport passes that cover a wide area, such as the London Oyster card, is not tax free.

43 Check how much you pay for the fuel used on business trips in your company cars. Employers can now pay up to 24p per mile tax free (depending on the size of the car's engine and fuel type) to employees who pay for the fuel used in the company car they drive. If your company has any cars that are not very fuel-efficient (such as a 4x4 used to cover rough terrain), you can use a higher tax-free mileage rate provided the rate can be justified.

£ Tip

The first £55 a week paid as childcare vouchers is free of both tax and employers' and employees' NICs.

44 **Don't forget to party!** Even the smallest business can host an annual tax-free social function for its entire staff, including the directors and their partners. As long as the cost per head is less than £150 (including VAT), employees are not taxed for having a good time and the company benefits from full tax relief on the expense incurred.

45 **Supply your employees with one tax-free mobile phone each.** Mobile phones, including smart phones, provided to employees are tax free as long as it is the employer rather than the employee who owns the phone and takes out the contract with the telecoms company.

46 **Pay your employees who have children partly with childcare vouchers that they can use to fund nursery and after-school care.** The first £55 a week paid as childcare vouchers is free of both tax and employers' and employees' NICs. You have to offer the childcare vouchers to all your employees who work at the same site, and the vouchers must not be exchangeable for cash. However, the exemption is lower for those employees who join the childcare voucher scheme after 5 April 2011 and who pay income tax at the higher or additional rate – the limits are £28 and £25 a week respectively.

47 **Reduce your expenses hassle by paying your employees a flat rate for meals they buy while working off-site, or when they work unusual hours.** You can make a tax-free payment of £5 for one meal, £10 for two meals and £15 for an evening meal, subject to certain conditions. This arrangement can only be used as part of a dispensation for business expenses that is agreed with HMRC.

Overseas aspects – planning when abroad

48 **Be careful of your UK residency status.** Your UK residency status is determined on a year-by-year basis, without any averaging between tax years. You need to be particularly careful if you have established non-UK residency status based on the number of UK ties that you have, as just a few extra days here in one tax year might, for example, move you from 46-90 days in the UK to 91-120 days – meaning that one less UK tie is permitted before you become UK resident. The same goes for the number of days that you spend working in the UK. Keeping detailed records of your movements is essential.

£ Tip

From April 2015 the Government is planning to tax non-UK residents when they dispose of assets.

49 **Realise gains free of UK CGT if you are planning to live abroad.** The rules are quite complicated, but essentially you need to be non-UK resident for more than five years. After your date of departure (be warned that for tax purposes, your date of departure is not necessarily the date you physically leave the UK), you can dispose of assets free of UK CGT. However, in future it will not be possible to avoid paying UK CGT when disposing of UK residential property – from April 2015 the Government is planning to tax non-UK residents when they make such disposals.

50 **Claim tax relief for agricultural property in Europe.** If you have made a gift within the last four years of agricultural property in the EEA, you could hold-over the chargeable gain that arose on that gift. This eliminates the tax you paid on the gain, and increases the gain on the property in the hands of the new owner. However, this gain will not be taxed until the new owner disposes of the property. The gift may also be free of UK inheritance tax (IHT), and this can be reclaimed if it has already been paid in respect of the gift.

This content is for general information only and is not intended to be advice to any specific person. As with all tax planning, you are recommended to seek competent professional advice before taking or refraining from taking any action on the basis of the contents of this publication. This publication represents our understanding of law and HM Revenue & Customs practice as at 1 April 2014.

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