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Tax Planning for the Year end 2014

(Tax year 2013- 2014)

Why planning is essential

While some of us like to keep our options open and only ever plan as far as the next weekend in our lives, unfortunately with tax that approach doesn't work. Thinking ahead and getting all the right tools in place is essential. In this guide we will hopefully show you that planning doesn't have to be painful.

The tax year end is on 5 April every year. Although this date never changes, some years, like this year, it falls on a weekend so there is less time for planning! After that we will be into the tax year 2014/15. Throughout the guide we will also be explaining any changes in the new tax year that may impact on you in this tax year.

As one tax year ends so the next one starts. Anything you do after 5 April normally counts for the next tax year. This is not always the case but the exceptions are few and far between. If you are considering taking any action before the tax year end regarding anything we talk about here, or anything else which may affect your tax, it is always advisable to obtain advice which is specific to your situation.

Planning for the new tax season

Tax is becoming increasingly complicated and HM Revenue & Customs are looking for more ways to raise money through fines for late or incorrect submissions. So it is its becoming more important to maintain good records and meet all the regulatory deadlines. To help with this we have included a checklist of information to be gathered through the tax year which we trust is helpful. Please contact us between now and 5 April 2014 if you would like to discuss any of the enclosed.

What we already know is changing

There are some changes we already know will be taking effect on 6 April 2014. Some of the main changes we know will take place at the year end are:

- The introduction of a transferable tax allowance for some married couples and civil partners
- The introduction of an exemption from employer national insurance contributions for employees under 21
- Anti-avoidance measures, which will affect some partnerships in which the partners include individuals and companies
- Changes to the Capital Gains Tax (CGT) Private Residence Relief occupation rules
- The introduction of new CGT rules for non-residents and UK residential property

Some of these are considered in this guide.

Planning for Income tax

Personal allowances

The personal allowance is what each of us can earn without paying any tax. The government sets this every year. You may be paying some national insurance contributions, even if you are paying no tax. This is because the thresholds are not the same. So it's important to check that you know what you will be paying.

For 2014 – 15 the personal allowance for income tax is to be set at £10,000. So you can earn this amount without paying any tax.* In his autumn statement speech, Chancellor George Osborne also confirmed that married couples and civil partners would be allowed to transfer up to £1,000 of their allowance from 2015.

Personal allowance claw backs: when the allowance may be lost

The basic personal allowance is claimed back where your 'net adjusted income' exceeds £100,000. The personal allowance is reduced on a sliding scale until income is in excess of £116,210 where it is removed all together. If you are caught by these rules it may be helpful to discuss ways of reducing the 'net adjusted income' to minimise the impact of the amount clawed back.

If you have a company and profit is extracted by way of dividends it may also be beneficial to pay a small salary. This is a complicated area of tax and specialist advice should be sought.

* Some National Insurance may be payable.

Changes to Partnership tax

Changes to limited liability partnerships

The government have included in the 2014 finance bill new laws to remove the automatic presumption of self-employment for partners in limited liability partnerships (LLPs).

The new rules will also make it harder for "tax-motivated allocations of business profits or losses in partnerships".

Under the new legislation, which is due to come into effect on 6 April 2014, partners will have to satisfy tests to prove they are true partners in a business, and retain the tax advantages the self-employed have over an employee. Obviously this is new and complicated law, and specialist advice will be required in many cases, but if you are affected by this you may wish to use the year end to assess how the new arrangements could affect you.

Making pension contributions and tax efficient savings – what are the new pension and savings limits?

Individual Savings Account (ISA)

As highlighted in our autumn statement 2013 report, the total ISA allowance will be increased from the current £11,520 to £11,880.

There is a total annual limit for how much you may invest into ISAs. The total annual ISA limits are set by HMRC. The whole of your annual ISA limit may go into a stocks and shares ISA.

Alternatively, you may split your ISA limit across a cash ISA and a stocks and shares ISA. However, there is a limit to how much may go in a cash ISA and this is currently half of the total annual ISA limit. Therefore you can invest up to £5,940 into a cash ISA and whatever remains can be invested into a stocks and shares ISA. The annual subscription limit for junior ISA and child trust funds (CTF) for 2014 to 2015 will increase marginally from £3,720 to £3,840.

Pensions

Changes to pensions

There have been major restrictions on pension tax relief in recent years, including limits on pension savings in recent years. This year is no exception. You may wish to review your retirement strategy with your financial adviser if you have not already done so this year.

There have also been changes to the state pension age and this is under regular review.

Personal pension contributions: limits for tax payers
To qualify for income tax relief, investments in personal pensions are limited to the greater of £3,600 and the amount of your UK relevant earnings, but subject also to the annual allowance.

This allowance was £50,000 for 2013/14. It reduces to £40,000 from April 2014.

Where pension savings in any of the last three years are less than £50,000, the 'unused relief' carries forward, but you must have been a pension scheme member during a tax year to bring forward unused relief from that year.

Personal pension contributions: limits for non-taxpayers

If you don't pay tax, you can still pay into a personal pension scheme and benefit from basic rate tax relief (20%) on the first £2,880 a year you put in. In practice this means that if you pay £2,880 the government will top up your contribution to make it £3,600.

There is no tax relief for contributions above this amount.

From 6 April 2014 the lifetime allowance will be reduced to £1.25 million. A new form of protection called fixed protection 2014 is being introduced to protect those who have built up pension pots of more than £1.25m but no more than £1.5 million.

Compulsory workplace pensions

In order to encourage more people to save for their retirement, the government is introducing compulsory workplace pensions for eligible workers. The changes are being phased in between 2012 and 2018, starting with larger employers.

All employers will have to enrol automatically all eligible workers into a qualifying pension scheme or National Employment Savings Trust (NEST), a simple low-cost opt-out pension scheme that is being introduced by the government. There will ultimately be a minimum overall contribution rate of 8% of each employee's qualifying earnings, of which at least 3% must come from the employer. The balance is made up of employees' contributions and associated tax relief.

There are conditions which relate to making pension contributions and taking tax free lump sums and annuities. You will need the advice of a qualified financial adviser in relation to any of these areas, and if you are considering making a pension contribution at any time, but especially before the tax year end.

Planning for Capital Gains tax

Using the Capital gains allowance

If you have capital gains consider realising them to use your capital gains allowance. For the 2013- 14 tax year the allowance was £10,600 per person. The allowance does not carry forward, so it is worth considering if this is relevant to you this year. You may be able to use your spouse or civil partner's annual exemption if it is unused, by transferring assets prior to the sale. It is essential to seek advice if this is being considered.

Changes to capital gains tax treatment of principal private residence

From April 2014, the final period of deemed occupation exemption will be reduced from the last 36 months of ownership to the last 18 months.

Some general guidance on the proposed change is given below, but you should bear in mind that this change may affect you if you are selling a house that has at one time been your main residence but is no longer your main residence.

You should seek specific advice if this applies to you, before taking, or refraining from taking any action.

What has changed?

By way of explanation, if you make a gain on the sale or gifting of a residential property, to be free from capital gains tax, it would normally need to be your principal private residence.

Complications arise when it has been your principal private residence at one stage but is not now, for example if it is now let to tenants.

At present when you come to sell a property that is not your principal private residence, subject to certain conditions, you may be still treated as if you are living there and entitled to principal private residence relief.

This is because provided you have lived in the property as your main residence at some stage; the tax law allows some specified periods of absence from a property to be treated as periods of residence. This is known as 'deemed occupation'.

For a long time the last 36 months of the period the property was owned has been treated by law as 'deemed occupation'. So for example if you were only absent from the property for the last 36 months of ownership and then sold it, there should normally be no capital gains tax to pay. However from 6 April 2014 this period of 'deemed occupation' will be reduced from 36 months to 18 months.

Venture capital trusts (VCT) and enterprise investment schemes (EIS)

VCT and EIS are in the main for individuals with a specific tax planning objective.

The VCT schemes are sometimes used for tax planning in relation to capital gains tax. These attract income tax relief at 30%. Subject to certain restrictions, the shares may be free of capital gains tax when they are sold.

EIS also offer significant tax relief and tax deferral on gains. From 6 April 2011 income tax relief has been available at 30% on EIS investments. From 6 April 2012 the relief can be claimed up to £1 million in qualifying companies. Relief can be carried back to the previous tax year, subject to the maximum limit. The Capital Gains exemption applies to disposals after a three year period, provided relief has not been withdrawn. EIS relief is very complicated and can be lost in many situations.

Individuals and certain trustees can defer all or part of their CGT liability if they subscribe for eligible shares in an EIS company. This is only a deferral of the gain and it will be brought back into charge when there is a subsequent disposal of the EIS shares.

Note: Both VCT and EIS carry risks for the investor. Investment advice will be required from a qualified financial adviser if you are considering these investments.

How may this affect me?

If you are considering selling a property you once owned and occupied as a **principal** private residence but you now reside somewhere else, you may be affected. The effect may be now or in the future but the date of sale may affect the amount of capital gains tax you may pay on any sale. This will obviously particularly affect those who are considering a sale around the tax year end, 5 April 2014.

Other relief may apply with regard to let property and other periods of absence including absence abroad.

A house may be deemed to be occupied by the owner if it is not occupied under certain concessions and if certain job-related conditions apply. What constitutes 'residence' in the context of principal private residence is a complex area of tax law and has been subject to many contested cases in the courts. The annual tax-free allowance (known as the annual exempt amount) allows you to make a certain amount of gain each year before you have to pay tax.

The tax law and related calculations are complicated and you should seek advice if this change might apply to you, before taking or refraining from taking any action.

Negligible value claims

It is usually wise to review your portfolio for any assets that are now of zero value. You may be able to make a claim to treat the asset as if you have sold the asset. For listed shares this procedure is relatively straight forward. For **unlisted shares** and other types of security, specialist advice may be required. The loss is treated as arising in the year the claim is made; it can normally be carried back to a time within the two preceding tax years, provided the relevant conditions are met.

You should ensure you have checked that the relevant conditions are met, as HM Revenue and Customs will deny the relief if the conditions are not met.

Planning for inheritance tax

Inheritance tax

The government recently announced that the inheritance tax threshold- the amount at which you pay inheritance tax - is to be frozen at £325,000 for individuals and £650,000 for couples until at least 2019. This is intended to pay for government welfare reforms.

Annual exemption

A measure of relief for inheritance tax is provided in the form of the annual exemption. Gifts of £3,000 in any year can be made without any liability to IHT. If you have not used your allowance in the previous year, you could gift up to £6,000.

Small gifts exemption

You can give up to £250 to as many people as you wish each tax year.

Gifts out of income

If your income regularly exceeds your expenditure, you can give away the excess every year.

You do need to record the intention to make these gifts and it is essential to keep records of your income and expenditure.

Lifetime giving

You could consider making lifetime gifts in excess of the above exemptions.

If you survive for seven years after making such a gift it will normally fall out of your estates entirely.

To qualify for this, the donor must not benefit from the assets once they are gifted. The gifts might be absolute gifts to family members, or they could be gifts into trusts. Trusts can be very beneficial, but specialist advice would be needed.

Gifts to charity

Gifts to charity are exempt from IHT, but if you give 10% of your net estate (the total estate value less the £325,000 nil-rate band) then the rate of IHT that applies to the remaining estate falls to 36%. Many people will make gifts to charity in their will and so it is worth taking this allowance into consideration.

Consider making a will or updating your will

Making a will and being sure people know where to find it is the first step to making sure that your estate is shared out exactly as you want it to be when you die. If you don't leave a will, your estate will be shared out among your next of kin according to a strict order of priority called the 'rules of intestacy'. This means that people you want to benefit from your estate - such as a partner you're not married to or in a registered civil partnership with - might get nothing.

Life changing situations can also have an effect on your will, for example, marriage or divorce, or the death of a family member or of a trustee.

The year end is a useful time to consider if you need a will, or to check it is up to date. If things have changed since you prepared your will, a new will (or a codicil to the old one) may be required to reflect these.

Other tax planning issues

Charitable giving

Charitable giving through gift aid increases the value of donations to charities and community amateur sports clubs by allowing them to reclaim basic rate tax on your gift. If you pay higher rate tax, you can claim extra relief on your donations. You can ask for gift aid donations to be treated as paid in the previous tax year, subject to certain conditions and time limits. Please contact us if this affects you.

Record keeping and time limits

As highlighted, the new tax season provides opportunities for tax planning. We suggest that one of the most important tasks is to gather information for the year just past while it is to hand in April, so that it can be sent to us in good time and we can assist you in planning. For example, as we discuss later, the second payment on account for the tax year is on 31 July 2014. Many people just pay the amount demanded but it is always worth checking if this can be reduced. See "Payment dates in the tax year" section below.

This year we have provided a very brief checklist, which is of course by no means comprehensive, of some of the areas you can consider for yourself and your family when approaching the year end. We have grouped the ideas into categories to assist the process. It's possible that some or none of these apply to you this year but we hope that there is something in the guide that is helpful.

One of the most important aspects of tax planning is getting the full picture early. If we are doing your tax return or engaging in a one-off planning exercise, there is no substitute for having all the information to hand, and having enough time to consider the position in detail.
Send in tax information as early as possible in the new tax season. Information provided at the last minute may be incomplete and in some cases may mean that the correct amount of tax is not paid, which may lead to fines. Under the new Revenue penalty system they may say you are "negligent" if your return is missing any of the required information and consequently they may add a penalty to any tax due.

For the 2014 season we suggest you start to get all of your information together immediately after the tax year ends on 5 April. 30 September is our advised latest due date' for sending all of the relevant information to us for the previous tax year so that we can make sure the data is processed in good time.

In the following pages we have compiled a handy checklist of the main items you will need to assemble soon after the year end. This is a general guide and is not exhaustive.

Appendix 1: Tax checklist of main documents required for completing a tax return

a) Income and other receipts

Item	Action	Due date in 2014
The tax year end		5 April
Interest received	Contact your bank or building society and obtain details of any interest on your own or joint account.	6 April
Dividends	Obtain details of all dividends received from 6 April to 5 April from all sources. This includes stock dividends if you have any.	6 April
Accounts/self employment	If you have any self employment in the period, you will need to assemble your books and records for the period to 5 April.	6 April
Employment income	Relevant form P 60 for the year ended 5 April 2014.	
Forms P11D	If you are employed and have benefits provided by the employer	These forms P11 D should be with you by 6 July each year.

Note

At the tax year end, we recommend that you obtain or order all the documents you need as early as possible. The above is a checklist of the documents you might need to obtain in order to complete your return each year and when they may be available. The above is not an exhaustive list.

Other dates which may be significant:

19 March 2014: Budget day
The budget is on 19 March – this means that changes can be effected which may impact on your year end tax planning. Please contact us if you think that there are changes in the budget which may impact you.

31 July: Second payment on account
The second payment of tax on account is due on 31 July 2014. The second payment on account is based on your earnings in the previous tax year. This may not be payable if your earnings are less. Please contact us if you feel this may apply to you.

Appendix 1: Tax checklist of main documents required for completing a tax return

b) Payments and other deductions

Item	Action	Due date in 2014
Pension contributions	If you have made pension contributions personally in the period, please contact your provider and have them send a confirmation of payments made.	This is normally available from your pension provider by 6 April each year
Loan interest paid	If you are paying interest on a qualifying loan obtain the interest certificate from the bank.	This is normally available from your lender by 6 April each year
Gift Aid payments made to Charities	Obtain details of payments made to registered charities in the period including their registered number.	
Second tax payment on account	Second payment on account due (based on 50% of 2012/13 liability unless 2013/14 return has already been submitted and the liability is lower. See tax planning at 31 July below.	31 July
High income child benefit charge	See income and expenses box below. This is relevant if your income is over £50,000.	
Student Loan repayments	If applicable please obtain details.	

Appendix 2: Checklist if you have let your property in the period

Income and expenses

Event	Action	Due date
If let for the first time, establish the correct legal position for example is the property owned in joint names or sole name.	The status of the property and the letting may affect your tax. Ask yourself: 1. Is the property jointly held? 2. Is it let furnished or unfurnished? 3. Does it qualify as a holiday let? 4. Are you claiming rent a room scheme? Please check with us if you are not certain about this.	
Income	Obtain details of income from tenants being careful to.	This is normally available by 6 April each year.
Expenses	Obtain a schedule of expenses paid out on the property, for example,repairs and maintenance, advertising, service charges and insurance costs.	This is normally available by 6 April each year.
Interest paid	Obtain details from the bank or lender of any interest paid on a loan.	This is normally available by 6 April each year.

The tax year end

As we said, the tax year end is 5 April 2014 which this year is on a Saturday. You may be restricted on doing some things on a Saturday, so it may be a good idea to treat the 4 April as the last practical date by which you need to take action. Usually any changes announced on budget day will need to be considered before taking any action or refraining from taking any action. In the first section of this guide we highlight "Changes we already know about" which were mainly things announced in the autumn statement.