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Tax planning for the new tax year – 5 April 2016

Your guide to the year-end tax planning and beyond

Action before 6 April 2016

While some of us like to keep our options open and only ever plan as far as the new 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.

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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. It is therefore becoming more important to maintain good records and meet all the regulatory deadlines. Please contact us between now and 5 April 2016 if you would like to discuss any of the enclosed.

We are writing this with regard to tax law, up-to-date at February 2016. Please note tax law changes from time to time and you should consider giving us a call if you are not sure, before taking any action (or deciding not to take action) based on any of the issues we raise in the guide. Please note Budget Day is 16 March 2016 and this may introduce further changes.

Property Lettings section

Due to the complexity of recent changes introduced to interest relief, stamp duty and other allowances, we have devoted a whole section at the end of this guide to property letting and the related year-end tax planning.

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Planning for Income Tax

Personal allowance

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 2016-2017 the personal allowance for income is £11,000. So you can earn this amount without paying any tax.* In his autumn statement speech, Chancellor George Osbourne also confirmed that married couples and civil partners would be allowed to transfer up to £1,000 of their allowance from 2015.

The basic personal allowance is reduced by £1 for each £2 by which your 'net adjusted income' exceeds £100,000.

*Some National Insurance may be payable.

New dividend tax regime

At the moment, dividend income is taxed at varying rates depending on whether your total income (including the dividend itself) puts you into the basic rate, higher rate or top rate bracket. The historic advantage being most basic rate taxpayers have paid no tax at all on dividends.

From 6 April the rules change so that, although the first £5,000 or dividend income is tax-free, the tax rates increase by 7.5% across the board and become 7.5%, 32.5% and 38.1%. Owners of private companies, who in the past have typically extracted profits in the form of dividends rather than remuneration in order to save national insurance contributions will be affected.

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Making pension contributions: new limits

Pensions

Changes to pensions

There have been major restrictions on pension tax relief in recent years, including limits on pension savings. You may wish to review your retirement strategy with your financial adviser if you have not already done so this year.

From 6 April 2016 pension annual allowances may be restricted for certain higher earners.

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

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; the government will top up your contribution to make it £3,600.

In a significant move, the government has reduced the "lifetime allowance" for pensions to £1million.

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Planning for Capital Gains Tax

Using the Capital gains allowance before the year-end

If you have capital gains, consider realising them to use your capital gains allowance. For the 2015/16 tax year the allowance is £11,100 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.

Negligible value claims – make claims before the year-end

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 maybe required. The loss is treated as arising in the tax 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 this is not the case.

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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 relief is very complicated and can be lost in many situations. Speak to us if you are considering investing in an EIS company.

Notes: 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.

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Planning for inheritance tax

Inheritance tax

The government recently announced that the inheritance tax threshold (the amount above which you pay inheritance tax) is to be frozen at £325,000 for individuals and £650,000 for couples until at least 2019.

Annual exemptions

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.

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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.

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Other tax planning issues

Individual Savings Account (ISA)

For the 2015-16 tax year the ISA allowance is £15,240.

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.

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. 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.

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Information to be with us by 30 October to avoid late submission penalties.

We would urge everyone to 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 this tax season we suggest you start to get all of your information together immediately after the tax year-ends on 5 April. 30 October 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. Information sent in after this date may not be processed. If any information at all is still outstanding at December we will not be able to file your Return on time and it will be filed as soon as possible after the January deadline.

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.

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Your guide to the main documents required for completing a tax return

a) Income and other receipts

Item	Action	Due date in this tax year
The tax year-end		5 April
Interest received	Contact your bank or building society and obtain details of any interest on your own or join 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 P60 for the year-ended 5 April	
Forms P11D	If you are employed and have benefits provided by the employer.	These forms P11D should be with you by 6 July each year.
Chargeable gains	Assemble details of disposals during the tax year. This may be obtained from your bank, broker or solicitor.	

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Notes

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:

16 March 2016: Budget day

The budget is on 16 March 2016. Changes may be made in the budget which may impact on your year-end tax planning. Please contact us if you think that there are changes which may impact you.

31 July: Second payment on account

The second payment of tax on account is due on 31 July 2016. The second payment on account is based on your earnings in the previous tax year. This may not be payable if your earnings have reduced. Please contact us if you feel this may apply to you.

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b) Payments and other deductions

Item	Action	Due date in this tax year
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	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.	

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c) Special Circumstances

Item	Action	Due date in 2016
EIS/VCT Investments	Obtain details of subscriptions and EIS Forms from the Company Secretary. It is advisable to cross check EIS forms issued with the relevant company Annual Return on a regular basis to ensure the two correspond.	
Other sources	You may have other sources of income such as Trust or Estates. Contact your solicitor or financial adviser for details.	
Other loans	You may have qualifying loans for tax purposes. Please obtain these from your bank.	

Notes

It is advisable to cross check EIS forms issued with the relevant company Annual Return on a regular basis to ensure the two correspond.

Please note we require all information to be received in our office by 30 October. Information received after this date may cause the tax return to be processes late. You may incur a fine if your Return is submitted after the deadline of 31 January.

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Tax planning for the property letting business

Documents and information you need if you have let a property in the tax year: Guide for those who have property lettings.

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 exclude deposits.	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/mortgage.	This is normally available by 6 April each year.
Furnishings	From 6 April 2016 keep a schedule of furnishings bought for each property, as wear and tear allowances are to be replaced by tax relief on replacement furnishings bought for the property.	

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IMPORTANT TAX CHANGES TO BUY TO LET RULES

For property letting significant changes are to be introduced to both stamp duty and interest relief which may have significant future ramifications on your tax bill. Contact us if you require clarification of how these proposed changes may affect you on an individual basis.

Stamp duty land tax changes

From 1 April 2016 a 3% SLDT "surcharge" applies on the transfer of residential property by an individual who owns more than one property. The new rate will also apply to property acquisitions by companies.

New rules for interest relief

There are new rules which restrict interest relief for buy to let landlords. These changes are to be phased in over three years from April 2017. Although their affect is delayed by the phased introduction, this may affect the profitability of some buy to let portfolios. The restriction applies to any amount borrowed for the purpose of a property letting business.

Wear and tear allowances

From April 2016 the formal wear and tear allowance – which allows 10% of the rental profits to be written off for a notional tax year, will be replaced with a relief that enables landlords to deduct costs they actually incur on replacing the furnishings in the property.

All these changes taken together will require detailed calculations to be performed as to whether any proposed property purchase is economically viable, particularly if it is secured on a mortgage.

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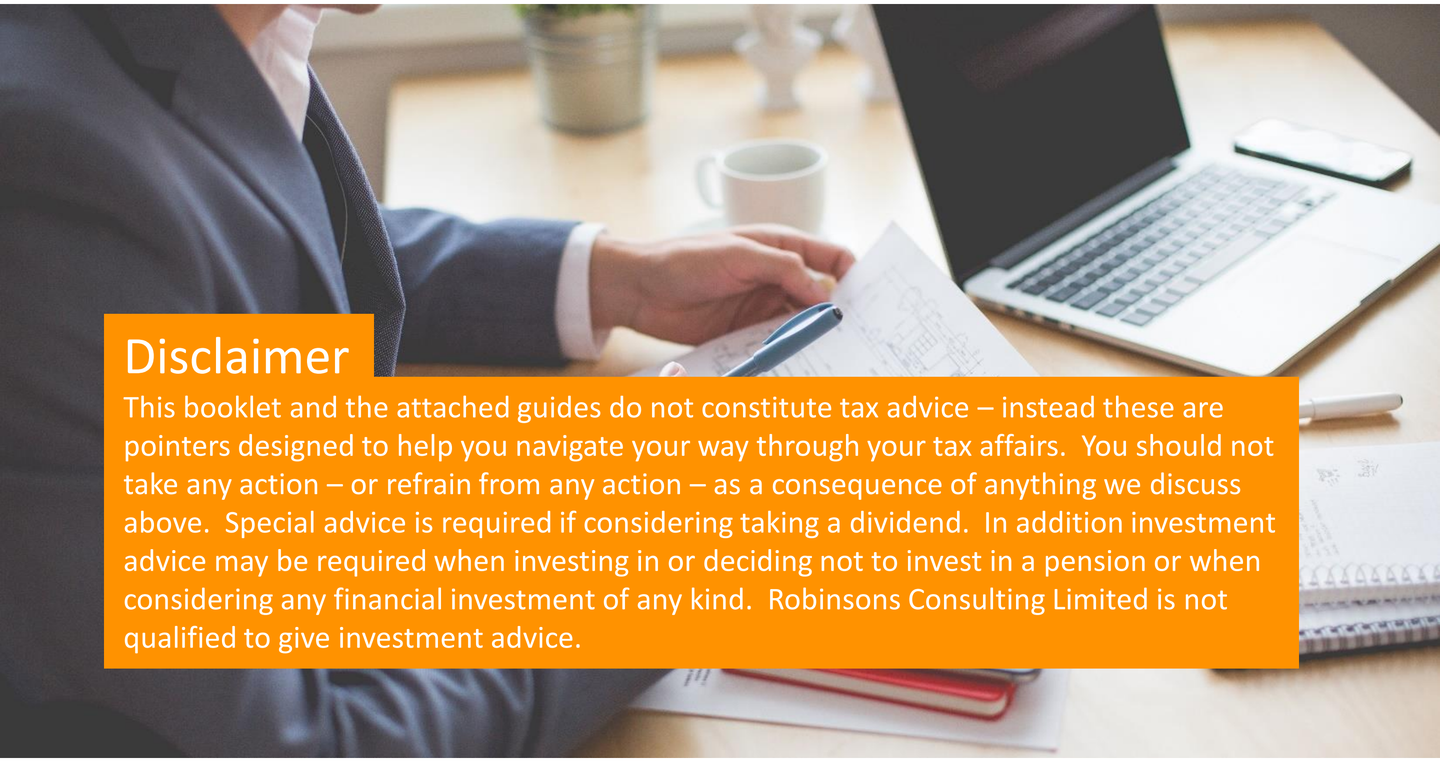

Disclaimer

This booklet and the attached guides do not constitute tax advice – instead these are pointers designed to help you navigate your way through your tax affairs. You should not take any action – or refrain from any action – as a consequence of anything we discuss above. Special advice is required if considering taking a dividend. In addition investment advice may be required when investing in or deciding not to invest in a pension or when considering any financial investment of any kind. Robinsons Consulting Limited is not qualified to give investment advice.

Thank you for taking the time to read our Year-end Tax Guide

If you have any queries about the information provided, large or small, please feel free to get in touch:

Connect with us:

- Join our mailing list
- Like us on Facebook
- Follow us on Twitter
- Follow our updates on LinkedIn

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