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Tax planning for the new tax year 5th April 2018

Your guide to year-end tax planning and beyond

Action before 5 April 2018

The following Guide to the tax year end (5 April 2018) is general and raises some issues to be considered *before* 5 April 2018 Please contact your usual partner contact before the year end if you feel you need to take action relating to any of the issues raised in this guide.

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Planning for the year ahead: 2018/2019

Making tax digital

HMRC are proposing a new system to replace the annual tax return, which is referred to as “Making tax Digital” (MTD).
The main changes which will come about from the new proposals will be that quarterly digital reporting for VAT will become compulsory. This implementation is to go live this year with the first deadlines being in the summer. But as we write this guide a considerable amount of detail still requires to be “fleshed out”.

To help our clients prepare for MTD we are running workshops explaining the new reporting regime and the relevant obligations throughout 2018 and 2019.

Please email us at info@robinsonslondon.com to be kept up to date with our workshop programmes.

Landlords’ obligations

HMRC also have landlords in their sights for MTD and they are scheduled to join the MTD system in 2020. Due to this and the complexity of recent changes to interest relief, stamp duty and other allowances, we will be issuing a separate property guide in the summer, as well as running property themed workshops throughout 2018.

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Planning for Income Tax

New dividend taxes have already introduced complexity in to the system.

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 2018-2019 the personal allowance for income is £11,850. So you can earn this amount without paying any tax.* Married couples and civil partners can transfer up to £1,000 of their allowance.

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

As highlighted previously, from 6 April 2016 the rules changed so that the first £5,000 of dividend income is tax-free. (The tax free dividend allowance will change from £5,000 to £2,000 on 5 April 2018). Beyond that, 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 are affected.

We have had many enquiries about this since the new rules were introduced. Please be sure to contact us to discuss how it affects your tax liabilities for 2018 and beyond.

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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 have been further 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 2018/19 tax year the allowance is £11,700 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. These conditions are stringent and will be applied very strictly by H. M. Revenue and Customs. Check with us before making a claim.

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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.

Please contact us if you are uncertain about how to claim relief for EIS investment before the year end.

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Planning for inheritance tax

Inheritance tax

The previous government 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.

Is your will up to date?

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)

In 2017-18 the limit increased to £20,000. This is a very generous allowance.

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.

Making Tax Digital

Record keeping and reporting requirements will now be greatly increased in frequency under MTD. The detail of the new rules are beyond the scope of this report, but we hope to cover them in our MTD workshops.

Click here to register >>

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Start preparing for MTD now:

Send your information to 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, to prepare for the quarterly filing regime which the government have announced will be implemented in 2019.

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.

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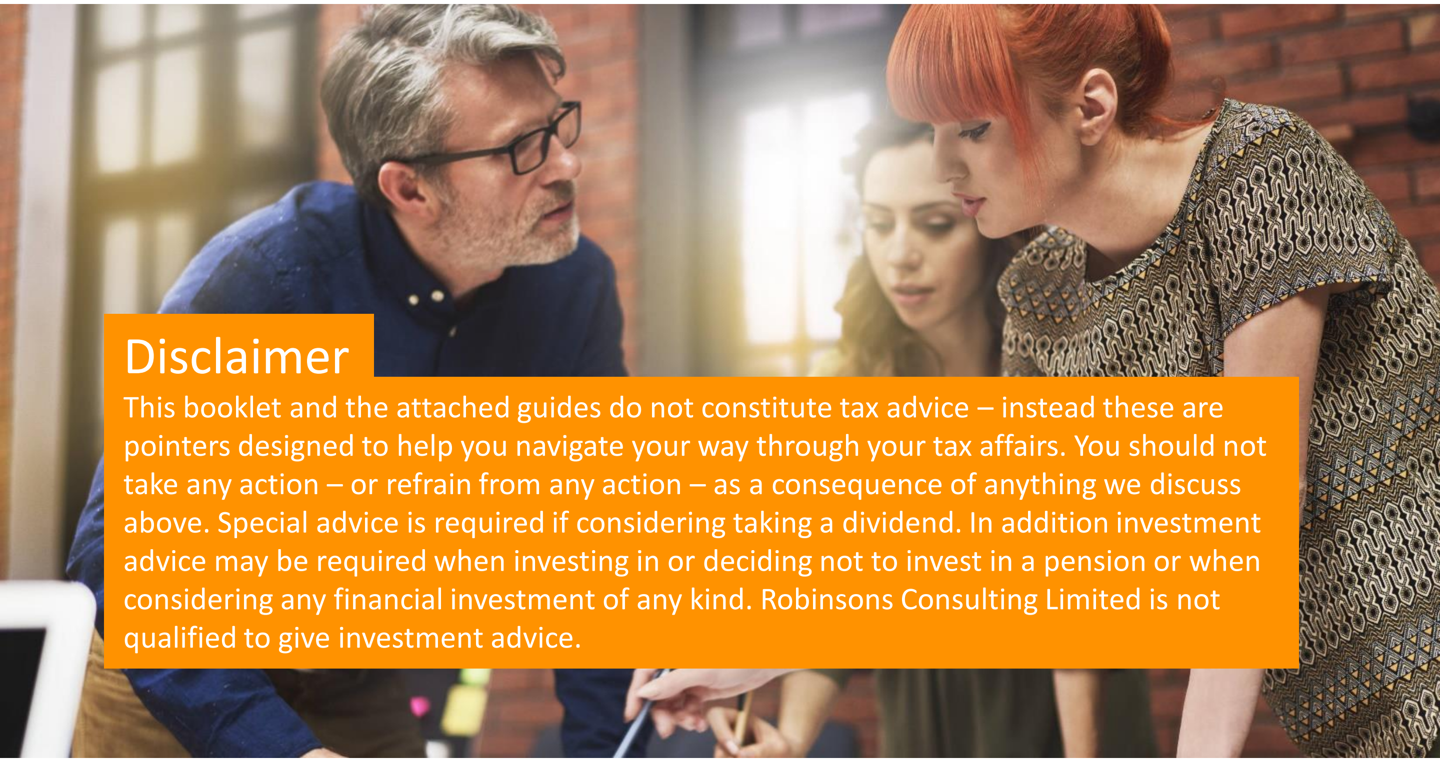

Disclaimer

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:

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