Year-end tax guide 2014/15

A short guide to rates, reliefs and allowances available for use by 5 April 2015

# Personal tax and allowances

Allowances and rates affecting income, savings, investments and pensions

## Income and personal allowances

### Tax-free income: £10,000 - £10,660

#### Basics

Most taxpayers are entitled to a certain level of income that is free of tax. Generally for those born after 5 April 1948 the personal allowance is £10,000 with entitlement to a maximum of £10,660 for those born before 6 April 1938. As ever, conditions and restrictions apply to the entitlement over £10,000. Above the personal allowance income is taxed at rates from 20% to 45%, though some taxpayers with very modest savings and income may only pay 10%.

#### Planning pointers

Is everyone in your family taking full advantage of the personal allowance? Are there opportunities to utilise any unused allowances this tax year? What can you do to take advantage of marginal tax rates and reduce the slice taxable at a higher rate? The basic rate of tax increases to the higher rate for taxable income over £31,865 and to 45% when taxable income exceeds £150,000. A higher marginal tax rate may be payable between £100,000 and £120,000 when the personal allowance is gradually withdrawn giving an effective marginal rate of 60% in this band for non-savings and savings income.

## Capital Gains Tax

### Tax realised gains: £11,000

#### Basics

Ordinarily, each person is entitled to make a tax-free gain up to £11,000 (or up to £5,500 for trusts). Thereafter, gains are taxed at a rate that is income dependent. Where taxable income is less than £31,866 the capital gains tax rate for gains up to the spare basic rate band allowance is 18%. Thereafter, this rises to 28%. The rate applicable to a trust is 28%. For business owners entrepreneurs' relief gives rise to a lower rate of 10% for qualifying gains which provides for a maximum reduction in tax of £1,800,000 (if the gain were £10 million, the current upper limit).

#### Planning pointers

What tax can be saved by maximising the advantage of family member tax free exemptions? Should an asset that is going to be sold in the future be transferred into joint names? If a gain is going to be realised are there other assets which are standing at a capital loss that can be used to reduce the quantum of your gains? If tax is due, are there ways of deferring or rolling over the gain?

## Inheritance Tax

### Tax on lifetime gifts and on death: £3,000

#### Basics

Generally, inheritance tax (IHT) is due on death at a rate of 40% if the inheritance threshold is exceeded. The current nil rate band threshold for IHT is £325,000. The percentage of any unused nil rate band from the first death may be transferred to the surviving spouse, allowing up to double the nil rate band applicable at the date of the second death. Gifts or transfers made within 7 years of death are also added back into the estate and are liable to IHT, but may be subject to some exemptions as well as a tapered reduction for tax on transfers between years 3 and 7.

#### Planning pointers

You have worked hard to create your wealth - now make sure you do all you can to minimise any payments that may be due for IHT. There are many opportunities to plan and the key is to plan thoroughly and in good time. Estate planning should start early in life but it is never too late to start. Do you have an up-to-date Will - one that reflects your wishes? Are you taking advantage of the available exemptions such as the annual £3,000 exemption, gifts out of income, and gifts on marriage or civil partnership?

## Pension contributions

### Annual allowance: £40,000

#### Basics

There are limits to how much can be invested in a pension scheme before a tax charge is payable. To qualify for personal tax relief, a contribution must be a pension contribution made by or on behalf of a relevant UK individual. Tax relief for pension contributions is restricted by reference to net relevant earnings and the annual allowance. The annual allowance is currently £40,000 while there is a lifetime allowance which is currently £1.25 million. However, it is possible to carry forward any unused allowances from the previous 3 tax years.

#### Planning pointers

Planning ahead, no matter what your current financial situation is, is not an option. It should be mandatory. A pension investment is many peoples' cornerstone as payments into a pension scheme currently attract tax relief of up to a potential maximum of 60%, however there are undoubtedly other components of retirement planning. When might you retire? What are your income expectations? Is your current plan likely to deliver your expectations?

## ISAs

### Tax-free savings account: £15,000

#### Basics

Individuals who are 18 or over can invest up to £15,000 in an ISA. Income and capital gains are tax-free while in an ISA, but any investment in an ISA is liable to inheritance tax. A Junior ISA of up to £4,000 is available for those who are 17 or under.

#### Planning pointers

If you don't already have an ISA, should you start one this tax year? A further advantage is that ISAs are normally readily accessible (subject to scheme rules).

## Tax Credits

#### Basics

Individuals on low incomes may be eligible to claim tax credits or the universal credit which was introduced in some parts of the UK in October 2013. Existing claimants will move to universal credit over a 2-year period to 2017. The calculations for these benefits can be complex. Basically, they involve determining 3 figures: your maximum benefit, your net income and your allowance.

The maximum benefit is the amount you would receive if you had no income at all. As some income is disregarded, it is possible that someone could receive the maximum benefit even though they have a small income. Net income is usually earnings after tax, national insurance and pension contributions. If you have capital above a threshold this may require a notional income to be added. The allowances are the maximum amount of income you may earn and still receive the maximum benefit. If your income is above this figure, a percentage of the excess is deducted from the maximum benefit.

#### Planning pointers

Check to see if you qualify for these benefits as they can be payable for people with fairly high incomes. As capital can be treated as income that reduces benefit, it may be sensible to give away funds or to spend them upgrading your property (as property value is not regarded as capital). However, there are rules to counter blatant examples of capital reduction.

The high percentages at which benefit is withdrawn (between 65% and 76% for universal credit) provide much scope for planning.

# Business taxes, allowances and reliefs

The latest date for action in most cases is the business year-end

## Corporation Tax

#### Basics

The rate of tax payable depends on the size of the profits. For the financial year from 1 April 2014, taxable profits of up to £300,000 are taxed at a rate of 20%, the next tranche at 21.25% and over £1.5 million at 21%. These thresholds are lower if there are associated companies, that is, companies under common ownership. Corporation tax self-assessment requires companies to work out their own tax liability as part of their return and account for the 'self-assessed' liability to corporation tax. This is part of the role we undertake as accountants.

#### Planning pointers

Taxable profits are typically reduced by employers making pension contributions. Self-invested personal pensions (SIPPs) are popular with many company owner-directors. Another popular tax reduction strategy is to bring qualifying capital expenditure forward to take advantage of the £500,000, 100% annual investment allowance. For a company in the marginal rate, that potentially reduces the cost of £500,000 capital expenditure to £393,750.

## Value Added Tax

### Registration threshold: £81,000

#### Basics

Value Added Tax (VAT) is chargeable where taxable turnover is in excess of £81,000 in the previous 12 months or you expect this threshold will be exceeded within the next 30 days. There is a range of special schemes which are intended to simplify VAT accounting. These include the cash accounting scheme, annual accounting scheme and the flat rate scheme.

#### Planning pointers

Would it be appropriate for you to use one of the special schemes? Are you claiming any VAT bad debt relief that you are entitled to? Are you accounting for VAT on the fuel used for private motoring using the appropriate scale charge? Make sure that you don't reclaim VAT on cars (unless you are a car dealer or taxi company, for example, or provide certain pool or leased cars for employees) or on entertaining UK customers.

## Business deductions

#### Basics

Business owners are entitled to claim deductions from income for costs which are incurred wholly and exclusively in running the business. Determining how this rule applies in practice can be a challenge. A deduction may not be claimed in respect of depreciation, but deductions in the form of capital allowances are available for some expenditure on qualifying capital expenditure.

#### Planning pointers

We have already looked at pension contributions and capital expenditure. So, it is important to ensure that all costs incurred are recorded. Directors' bonuses can be claimed so long as they are paid within 9 months after the company year-end but pension contributions must be paid before the year-end to get tax relief in the accounting period. Salaries can be made to family members as long as they are justifiable and at commercial rates. Other ways of extracting profits include dividends and benefits in kind.

## Entrepreneurs' relief

### Relief on disposals: 10%

#### Basics

Entrepreneurs' relief provides relief for disposals by smaller business owners. It charges a reduced tax rate of 10% on disposals up to the lifetime limit of £10 million giving rise to a potential tax saving of up to £1.8 million. The relief is available on material disposals of business assets which covers businesses operated as a sole trader, partnership or through a limited company.

#### Planning pointers

The liability to capital gains tax is just one aspect of all the planning that goes into the wording of the final contract for sale. Maximising the sale value and looking carefully at the proposed sale structure helps to ensure the liability to capital taxes is not a penny more than absolutely necessary. There are a number of planning opportunities in this area but there are also pitfalls if some shareholders do not qualify for this relief.

## Landlords Energy Saving Allowance

### Saving per dwelling house: £1,500 tax deductible expenditure

#### Basics

Landlord's Energy Saving Allowance (LESA) is available until April 2015. Under the rules, qualifying expenditure of up to £1,500 per dwelling is tax deductible. Expenditure which qualifies for this deduction from rental income includes loft insulation, cavity wall insulation, solid wall insulation, draft proofing, hot water insulation and floor insulation.

#### Planning pointers

LESA is only available to landlords letting residential as opposed to holiday accommodation. Why not ensure that your let properties are all as energy efficient as possible before this extra relief is withdrawn?

## Penalties

#### Basics

The tax system is replete with penalties to which you may become liable if you either fail to file or pay late. This penalty regime covers such taxes as income tax, corporation tax, VAT and inheritance tax. There are also penalties to cover the notification of starting a business and the filing of returns and accounts at Companies House. So, for the avoidance of doubt, you should ensure that you know all of your filing and payment requirements and the due date for payment.

#### Planning pointers

Miss the first income tax return filing deadline and the next day you are liable for a £100 fine. Leave for another 3 months and the maximum penalty rises by £10 a day up to a maximum of £900. After 6 months a further £300 or 5% of the tax due, whichever is the higher, is added. In some serious cases the penalty can be even higher than this.

HMRC charge late filing penalties for PAYE, VAT and Corporation tax while at Companies House penalty rates range from £150 for a private company filing the accounts not more than 1 month late up to £7,500 for a public company filing accounts more than 6 months late.

# Upcoming changes

The party (or parties) that wins the general election in May is likely to make election promises that may change announcements already made – nothing is certain. Currently the starting rate limit on savings income is to increase to £5,000. The annual charge currently payable by non-domiciled individuals resident in the UK who wish to retain access to the remittance basis is to increase by £10,000 to £60,000 with a new charge of £90,000 for those who have been UK resident for 17 of the last 20 years. From April 2015, savers will be able to access their defined contribution pension as they wish at retirement, subject to their marginal rate of income tax, instead of the current 55% charge for full withdrawal.

# Important information:

The way in which tax charges (or tax relief, as appropriate) are applied depends upon individual circumstances and may be subject to change in the future. ISA and pension eligibility depend upon individual circumstances. FCA regulation applies to certain regulated activities, products and services, but does not necessarily apply to all tax planning activities and services. This document is solely for information purposes and nothing in this document is intended to constitute advice or a recommendation. You should not make any investment decisions based upon its content. Whilst considerable care has been taken to ensure that the information contained within this document is accurate and up-to-date, no warranty is given as to the accuracy or completeness of any information. E & OE.