



Teachers
Financial Planning

YEAR-END TAX GUIDE

2013/14

A short guide to rates, reliefs
and allowances available for
use by 5 April 2014

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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 personal circumstances. 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. The value of investments can fall as well as rise and you may not get back the full amount you originally invested. 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.

INCOME AND PERSONAL ALLOWANCES

Tax-free income

**£9,440-
£10,660**

Notes:

Basics

Most taxpayers are entitled to a certain level of income that is free of tax. Generally for those under 65 the personal allowance is £9,440 with entitlement to a maximum of £10,660 for those who are over 65. As ever, conditions and restrictions apply to the entitlement over £9,440. Above the personal allowance income is taxed at rates from 20 per cent to 45 per cent, though some taxpayers with very modest savings may only pay 10 per cent.

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 £32,010 and to 45 per cent when taxable income exceeds £150,000. The highest marginal tax rate is between £100,000 and £118,880 when the personal allowance is gradually withdrawn giving an effective marginal rate of 60 per cent in this band.

CAPITAL GAINS TAX

Taxing realised gains

£10,900
tax-free gains

Notes:

Basics

Ordinarily, each person is entitled to make a gain tax free up to £10,900 (or up to £5,450 for trusts). Thereafter gains are taxed at a rate that is income dependent. Where taxable income is less than £32,010 the capital gains tax rate for gains up to the spare basic rate band allowance is 18 per cent. Thereafter this rises to 28 per cent. The rate applicable to a trust is 28 per cent. For business owners entrepreneurs' relief gives rise to a lower rate of 10 per cent 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?

£3,000
annual exemption

INHERITANCE TAX

Tax on lifetime gifts and on death

Notes:

Basics

Generally, inheritance tax is due on death at a rate of 40 per cent of the chargeable estate if the inheritance threshold is exceeded. The current nil rate band threshold for inheritance tax is £325,000. Any unused nil rate band from the first death may be transferred to the surviving spouse. Gifts or transfers made within seven years of death are also added back into the estate and are liable to inheritance tax subject to a tapered reduction for tax on transfers between years three and seven.

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 inheritance tax. There are many opportunities to plan and the key is to plan well and ahead. Firstly, estate planning should start early in life. But, it is never too late to start. Next, 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?

£50,000
annual allowance

PENSION CONTRIBUTIONS

Income in retirement

Notes:

Basics

There are limits as to how much can be invested in a pension scheme before a tax charge is payable. To qualify for personal tax relief, a pension contribution must be 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 £50,000 while there is a lifetime allowance which is currently £1.5 million. But see our final section regarding changes from April 2014.

Planning pointers

Planning ahead for retirement regardless of your current financial situation is not an optional extra. It should be mandatory. A pension investment is many people's cornerstone as payments into a pension scheme currently attract tax relief of up to 45 per cent. 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?

INDIVIDUAL SAVINGS ACCOUNTS

£11,520
annual investment limit

Tax-free savings account

Basics

An investment of up to £11,520, including a maximum of £5,760 in cash can be made for those who are 18 or over. 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 £3,720 is available for those who are 17 or under.

Planning pointers

Some investors who took early advantage of the ISA regime have investments worth in excess of £1 million so there are many millions who have used this savings vehicle. If you don't have one, should you start an ISA this tax year? A further advantage of an ISA is that it is normally readily accessible. This right is subject to scheme rules.

Notes:

TAX CREDITS

Basics

Those on low incomes may be eligible to claim tax credits or the new universal credit, which was introduced from October 2013. Existing claimants will move to universal credit over a four-year period to 2017. The calculations for these benefits can be complex. Basically, they involve determining three 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. Some income is disregarded. 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 per cent and 76 per cent for universal credit) provides much scope for planning.

Notes:

Where applicable the latest date for action in most cases is generally the business year-end.

CORPORATION TAX

Notes:

Basics

The rate of tax payable depends on the size of the profits. For the year from 1 April 2013, taxable profits of up to £300,000 are taxed at a rate of 20 per cent, the next tranche at 23.75 per cent and over £1.5 million at 23 per cent. These figures are lower if there are associated companies. 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. That is part of the role we undertake as accountants.

Planning pointers

Taxable profits are typically reduced by making pension investments. 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 £250,000 100 per cent annual investment allowance. For a company in the marginal rate that potentially reduces the cost of £250,000 capital expenditure to just over £190,000. Can profits be moved from one year to the subsequent year?

£79,000

VALUE ADDED TAX

Registration threshold

Notes:

Basics

VAT is chargeable where taxable turnover is in excess of £79,000 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? And make sure that you don't reclaim VAT on cars (unless you are a car dealer) or on entertaining UK customers.

BUSINESS DEDUCTIONS

Notes:

Basics

Business owners are entitled to claim deductions from revenues in respect of those costs which are incurred wholly and exclusively in running the business. Well, that's the basic rule but of course interpretation is never so easy. A deduction may not be claimed in respect of depreciation, but deductions in the form of capital allowances are available for some 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 nine 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

10% on disposals up to

£10 MILLION
maximum lifetime limit

Notes:

Basics

Entrepreneurs' relief provides relief for disposals by smaller business owners. It produces a net tax rate of 10 per cent 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 raising of that final sales invoice. Maximising the sale value and then setting about ensuring that the liability to capital taxes is not one 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.

LANDLORD'S ENERGY SAVING ALLOWANCE

£1,500

tax deductible expenditure

Saving per dwelling house

Notes:

Basics

Qualifying expenditure up to £1,500 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 cannot be claimed if rent-a-room relief is being claimed in respect of the dwelling house. Neither can it be claimed if the property business includes the commercial letting of furnished holiday accommodation. LESA cannot be claimed if the expenditure is incurred in respect of energy-saving items in a dwelling house which, at the time when the items are installed, is in the course of construction. It also cannot be claimed if the dwelling home is comprised on land in which the person claiming the deduction under this section does not have an interest or is in the course of acquiring an interest or further interest.

PENALTIES

Notes:

Basics

The tax system is replete with penalties to which you become liable if you either fail to file or pay late. This penalty regime covers such taxes as income tax, corporation tax, VAT, PAYE 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

Miss the first income tax return filing deadline and the next day you are liable for a £100 fine. Leave for another three months and the maximum penalty rises by £10 a day up to a maximum of £900. After six months a further £300 or five per cent 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. At Companies House the penalty rates range from £150 for a private company filing the accounts not more than one month late, to up to £7,500 for a PLC filing accounts more than six months late.



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