Caldwell & Braham
CHARTERED ACCOUNTANTS

2nd Floor 8 Charterhouse Buildings Goswell Road London EC1M 7AN
T: +44 (0)20 7253 0030 F: +44 (0)20 7253 0071
E: mail@caldwellandbraham.co.uk **www.caldwellandbraham.co.uk**

Could you save tax ahead of the year end?

This guide introduces a range of planning opportunities to consider ahead of the tax year end (5 April), with the aim of minimising your tax liability and maximising your wealth. It also looks ahead to some of the forthcoming changes which may affect your business and personal finances.

Your personal finances

Income tax and personal allowances

If your spouse or partner has little or no income, consider transferring income (or income-producing assets) to them so they can make full use of their personal allowance (currently £9,440) during the 2013/14 tax year. However, take care to avoid falling foul of the settlements legislation governing ‘income shifting’, and consider the legal consequences of transfers.

Meanwhile, those with an income over £100,000 who are paying tax at 40% should be mindful of the ‘hidden top rate’ of income tax: personal allowances are clawed back by £1 for every £2 that adjusted net income exceeds £100,000, equating to an effective 60% rate on up to £18,880 of your income!

With care it may be possible to reduce your taxable income and retain your allowances, for example by increasing payments into a pension or delaying income into the following tax year (or sharing ownership with your spouse). Contact us to discuss the full range of options available to you.

While you may be focussing on the 2013/14 tax year, remember that these steps can also reduce your or your family’s overall tax bill for years to come.

Looking Ahead

For 2014/15, the personal allowance for those born after 5 April 1948 will rise to £10,000, while the basic rate limit will be reduced to £31,865.As confirmed in the 2013 Autumn Statement, from April 2015 eligible spouses and civil partners will be able to transfer £1,000 of their personal allowance to their partner, where neither pays tax at the higher or additional rate.

Tax-efficient pension planning

A registered pension scheme can be a tax-efficient way of saving for your retirement, as contributions attract tax relief at an individual's marginal rate of tax (in some cases 60%), subject to certain limits.

Pension contributions need to be made by 5 April 2014 to be applied against 2013/14 income. Relief is available for tax on annual contributions, limited to the greater of £3,600 (gross) or the amount of UK relevant earnings, but subject also to the annual allowance, which is £50,000 until 5 April 2014 but will be reduced thereafter – see below for further details.

Unused relief may be carried forward where premiums paid in the pension input periods (PIPs) ending in the preceding three years are less than the annual allowance. However, restrictions apply and the rules are complex, so please contact us for further information.

Looking Ahead

From 6 April 2014 the annual allowance will be reduced to £40,000, while the overall tax-advantaged pension saving lifetime allowance will fall from £1.5 million to £1.25 million. Contributions exceeding these limits may result in a tax charge.

The Government is introducing fixed and individual protection for those likely to be affected by the reduction in the lifetime allowance – see ***www.hmrc.gov.uk/pensionschemes/*** *for further details.*

For those who do not have a full entitlement to the state pension, voluntary national insurance contributions (NICs) will – for a short period – allow the shortfall to be purchased at what is expected to be a 'market price' between late 2015 and April 2016. Full details will be available nearer the time.

Savings and investments

In the current climate of low interest rates, paying tax on your savings and investment earnings should be minimised or avoided if possible. There are many tax-efficient savings and investments available, although ISAs still remain one of the most popular.

Adults (18 or over) with an ISA can save a maximum of £11,520 for the year 2013/14 without having to pay any tax. Of this, no more than £5,760 can be saved in cash.

Investments can be made up until 5 April 2014, so be sure to make full use of this tax-free allowance, as it cannot be carried over into the next financial year.

Meanwhile Junior ISAs, for those aged under 18 who do not have a Child Trust Fund (CTF) account, allow investment of up to £3,720 in 2013/14. The current CTF limit is also set at £3,720.

Whether through an ISA or another form of investment, you may decide to save for your retirement in parallel with your formal pension policy – for example, by investing in rental property. We can advise you on the tax implications of a range of savings vehicles.

Looking Ahead

The overall annual ISA subscription limit for 2014/15 will rise from £11,520 to £11,880, of which up to £5,940 can be invested in cash. The subscription limit for Junior ISAs and the CTF will increase from £3,720 to £3,840.

Strategies for your business

Profit extraction: reducing the national insurance bill

Did you know that taking a dividend rather than a salary or bonus could reduce your national insurance bill? A dividend is paid free of NICs, whilst a salary or bonus can carry up to 25.8% in combined employer and employee contributions. However, the decision is not always straightforward as a salary or bonus is generally tax deductible to the company, whereas dividends are not.

5 April 2014 is the last date for paying a 2013/14 dividend, and any higher or additional rate tax on that dividend will not be due until 31 January 2015. The decision on whether or not to pay a dividend is complex, and it is important to consider the wider implications for both you and the company.

Looking Ahead

For 2014/15, there are no changes to the percentage rate of contribution for Class 1, Class 1A, Class 1B and Class 4 NICs but there are changes to all of the thresholds and limits – please contact us for details.

The weekly rates for Class 2 and Class 3 NICs will be increased, while the Class 1 Upper Earnings Limit and the Class 4 Upper Profits Limit for NICs will continue to be aligned with the point at which higher rate tax becomes payable (£41,865).

In addition, from April 2014 many businesses and charities will be entitled to a new Employment Allowance. This allowance will mean that up to £2,000 will be deducted from their employers' NICs liability over the course of the year's PAYE payments.

Timing your business expenditure

With the main rate of corporation tax set to fall from 1 April 2014 (see below), incurring expenses shortly before the year end rather than after may mean that relief is obtained 12 months earlier and at a higher rate. Please talk to us before taking action.

Also, for a limited period from 1 January 2013 to 31 December 2014 the majority of businesses can claim a 100% Annual Investment Allowance (AIA) on the first £250,000 of expenditure on most types of plant and machinery (except cars).

From 1 January 2015 the AIA is due to fall to its previous limit of £25,000, so timing your capital expenditure to take advantage of the temporary increase could result in substantial tax savings.

Looking Ahead

The main rate of corporation tax will be reduced to 21% for the financial year commencing 1 April 2014 and from 1 April 2015 it will be further reduced and unified with the small profits rate, giving a new unified rate of 20%.

Tax and business motoring

The company car is an important part of the remuneration package for many employees, but is your business motoring strategy as tax-efficient as it could be?

You might consider switching to a company car with low CO_2 emissions to save tax. There are reduced car benefit rates for 'environmentally-friendly' cars – either those incapable of emitting CO_2 or those emitting up to 75g/km.

Alternatively, an employer-provided van can also result in tax savings. Unrestricted use of a company van results in a taxable benefit of £3,000, with a further £564 benefit if free fuel is also provided. The resulting tax bill can be up to £1,603.80, with an employer NIC bill of £491.83. Limiting the employee's private use to only home to work travel could reduce both figures to zero.

However, if replacing the company car fleet is not a viable option, consider whether you could benefit from paying employees for business mileage in their own vehicles, at the statutory mileage rates. This may be particularly advantageous when business mileage is high.

We can help you make the right decision for your business – please contact us for assistance.

Looking Ahead

From 2014/15, the car fuel benefit charge multiplier will rise from £21,100 to £21,700 and the van fuel benefit charge will rise from £564 to £581.

Meanwhile, the van benefit charge will increase from £3,000 to £3,090.

In addition, the lower emissions threshold for company car tax will be reduced from 115g/km to 110g/km. The lowest appropriate percentages will remain at 0% and 5%.

The appropriate percentage will increase by 1% for all vehicles with CO_2 emissions between 95g/km and 210g/km, to a maximum of 35%.

For further information on year end tax planning strategies, or for advice on any of the other issues raised in this guide, please contact us.