Caldwell & Braham
CHARTERED ACCOUNTANTS

Saving tax before the 5 April year end

Proper financial planning is always important, but as the end of the tax year approaches, now is the time to ensure that your business and personal finances are as tax-efficient as possible. Here we consider some of the planning strategies that are available to you before 6 April 2015, and outline some key tax measures planned for 2015/16.

Capitalising on personal allowances
Every individual has their own tax-free personal allowance for income tax purposes, which in 2014/15 is £10,000 for those born after 5 April 1948.

Where a spouse or partner has little or no income, transferring income or income-producing assets to them can help to make the best use of their personal allowance. However, take care to avoid falling foul of the settlements legislation governing 'income shifting', and consider the legal consequences of transfers.

Those with an income over £100,000 could be at risk of paying an effective rate of 60% on a proportion of their income. Higher rate income tax is payable at 40% on taxable income over £31,865 (that is income after personal allowances), but once 'adjusted net income' exceeds £100,000 the personal allowance is clawed back at a rate of £1 for every £2 by which adjusted net income exceeds £100,000. This means that taxpayers could effectively be paying tax at 60% on up to £20,000 of their income.

In such circumstances, we can advise on a range of strategies to help keep the tax bill to a minimum, before the end of the tax year on 5 April. This may include increasing payments into a pension, or delaying income into the next tax year. Please contact us for further assistance.

Future changes
Chancellor George Osborne announced in the 2014 Autumn Statement that the personal allowance will rise to £10,600 from 6 April 2015, a higher increase than was originally planned at the time of the 2014 Budget. The basic rate band will be £31,785 and thus, for many taxpayers, higher rate taxes will start to be paid when total income exceeds £42,385.

From April 2015, up to £1,060 of an individual's personal allowance may be transferred by eligible spouses and civil partners to their partner, where neither pays tax at the higher or additional rate.

Making tax-efficient savings and investments
While low interest rates continue to pose a challenge to savers, the individual savings account (ISA) has maintained its status as a popular tax-free savings vehicle. On 1 July 2014, ISAs were replaced by the

New ISA, or NISA.
Under the new system, adult savers can now invest in any combination of cash or shares, up to a total of £15,000 per annum. There are still two types of ISAs – cash NISAs and stocks

and shares NISAs. The £15,000 can only be invested in a maximum of one cash NISA and one stocks and shares NISA so, if investments have been made earlier in the tax year to a cash ISA, further contributions into a cash NISA must be made into the same ISA.

Another change this year is that money that is held in stocks and shares ISAs opened during any tax year can be transferred into a cash NISA. Transfers from cash to stocks and shares ISAs was already allowed and so transfers either way can be made as many times as the account holder wishes.

Savers aged between 16 and 18 can pay up to £15,000 into a cash NISA.

In addition, Junior ISAs (JISAs) remain an option for those aged under 18 who were not entitled to open a Child Trust Fund account. Up to £4,000 can be invested in a JISA during 2014/15 and this can be a cash ISA, a stocks and shares ISA or both. On reaching 18, the JISA becomes a normal adult NISA.

Take Note
You have until 5 April 2015 to make your 2014/15 NISA investment. You should consider shopping around for the best deal, as rates and conditions vary between providers.

Future changes
Contribution limits for NISAs, the Junior ISA and Child Trust Funds are set to be uprated in line with the Consumer Price Index for 2015/16, bringing the NISA limit to £15,240 and the JISA and Child Trust Fund limit to £4,080.

As announced in the 2014 Autumn Statement, for deaths from 3 December 2014 surviving spouses or civil partners are able to inherit the NISA tax advantages by means of an additional NISA allowance equal to the value of that saver's holdings on their death. This can be used from 6 April 2015 onwards.

Tax-efficient pension planning
Making contributions into a pension scheme offers tax relief at an individual's marginal rate of tax (potentially worth up to 60%), subject to limits. Relief on annual contributions is limited to the greater of £3,600 (gross) or the amount of UK relevant earnings, and subject to the annual allowance, which from 6 April 2014 has been reduced from £50,000 to £40,000.

Pension contributions must be made on or before 5 April 2015 to be applied against 2014/15 income. Unused reliefs may be carried forward where there are savings shortfalls in the preceding three tax years – please contact us for further details.

Future changes
The Government has implemented a number of measures aimed at affording individuals greater flexibility over their pension pots. From April 2015 members of defined contribution pension schemes will be able to take their retirement savings without needing to buy an annuity. The taxation consequences of taking advantage of this flexibility will be a significant factor in deciding when to access the pension fund.

From April 2015, beneficiaries of individuals who die under the age of 75 with remaining uncrystallised or drawdown defined contribution pension funds, or with a joint life or guaranteed term annuity, will be able to receive any future payments from such policies tax-free where no payments have been made to the beneficiary before 6 April 2015.

The rules will also be changed to allow joint life annuities to be paid to any beneficiary. Where the individual was over 75, the beneficiary will pay the marginal rate of income tax, or

45% if the funds are taken as a lump sum payment. Lump sum payments will be charged at the beneficiary's marginal rate from 2016/17.

Extracting profits – tax-efficiently

When it comes to extracting profit from your company, it is important to consider both the tax and business implications of the various options available.

Taking a dividend rather than a salary or bonus could reduce the national insurance bill. While a dividend is paid free of national insurance contributions (NICs), a salary or bonus can carry up to 25.8% in combined employer and employee contributions. However, a salary or bonus is usually tax deductible to the company. The last date for paying a 2014/15 dividend is 5 April 2015. Any related higher or additional rate tax on the dividend may not be due until 31 January 2016. However you may have already paid some of the tax through the payments on account system. The rules can be complex – please talk to us about the implications of paying a dividend.

Timing may also be an important consideration – it may be helpful to delay the timing of bonuses and dividends if taxable income is likely to exceed £100,000 or £150,000, especially if income in 2015/16 will be less.

Other tax-efficient ways of extracting profit may include: using tax-free allowances, such as mileage payments, or reducing profits by the payment of employer pension contributions. However, each option requires careful consideration, so please contact us for further assistance.

Future changes

From April 2015, employer NICs on up to £42,385 p.a. for employees aged under 21 will be 0%. Employers will be liable to 13.8% NICs beyond this limit. Also from April 2015, employer NICs on up to £42,385 p.a. for apprentices aged under 25 will be abolished, with the aim of further encouraging employers to take on apprentices.

Considering your company car

The company car remains a key part of the remuneration package for many employees, but it is important to consider the tax and national insurance implications of your company car arrangements.

Employees and directors pay tax on the provision of the car and on the provision of fuel by employers for private mileage. Employers pay Class 1A NICs at 13.8% on the same amount. The amount on which tax and NICs is paid is calculated by multiplying the list price of the car by an 'appropriate percentage'.

It may be worth considering paying your employees for business mileage in their own vehicle, at the statutory rates. We can review your company car policy and discuss the options available to you. An employer-provided van may be a viable tax-efficient alternative to the traditional company car. There are also special reduced car benefit rates for environmentally-friendly cars.

Future changes

The maximum taxable percentage is set to rise from 35% to 37% in April 2015. From April 2015 the five-year exemption for zero carbon and the lower rate for ultra-low carbon emission cars will come to an end. Two new bands will be introduced for ultra-low emission vehicles. The diesel supplement will also be removed in April 2016, making diesel cars subject to the same level of tax as petrol cars.

With robust planning and expert advice, you can minimise the tax bill and maximise your business and personal wealth now and in the coming years. Please contact us for further assistance.