newsletter 2016 financial planning
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Tax year-end planning

Personal Allowance
Income up to the value of the personal allowance is tax-free, but any unused personal allowance cannot be carried forward to the next tax year, so the message is “use it or lose it”. In 2015/16 every taxpayer has a personal allowance of £10,600.

The allowance is reduced by £1 for every £2 of income over £100,000, and is lost when income exceeds £121,200. Income between £100,000 and £121,200 is effectively taxed at 60%. However, making pension contributions will reduce the income on which tax is calculated.

Transferring income-producing assets
One way for spouses to ensure that both of their personal allowances are utilised is to transfer income-producing assets from one to the other. Similarly, such transfers will enable spouses to ensure that both of their respective £11,100 annual Capital Gains Tax allowances are utilised. This is entirely legitimate and approved by HMRC.

Inheritance Tax exemptions
Gifts up to the value of £3,000 can be made in each tax year without any tax consequences, and any unused entitlement can be carried forward for one year. In addition, an unlimited number of gifts up to £250 value can be made to different recipients, and regular gifts out of excess income can also be made tax-free, subject to conditions.

Dividend tax changes
The system of taxing dividends on shares will change with effect from 6 April and, depending on individual circumstances, it could make sense for business owners either to accelerate payments so that they are received in the current tax year or to delay them so that they are received in the next.

Under the new system, the first £5,000 of dividend income will be tax free. Basic rate taxpayers will pay tax at 7.5% on any excess over £5,000; higher rate (40%) taxpayers at 32.5%; and additional rate (45%) taxpayers at 38.1%.

Using the pension allowance
Pension contributions are the most tax-efficient form of investment, and currently qualify for tax relief at the saver’s highest marginal rate of tax. However, the cost to the Government of this relief is very high, and it is rumored that the Chancellor may announce a less generous regime in his 16 March Budget. One possibility would be to tax pensions in the same way as ISAs, which would incidentally end the 25% tax-free cash entitlement. Recent announcements suggest this is not likely to happen now, but we will not know for certain until after the Budget on 16 March.

The maximum amount which can be invested in pensions in a single tax year is £40,000, but as a result of the second Budget in 2015, if £40,000 was invested before 8 July 2015, a further £40,000 can be invested after that date, permitting a total contribution of £80,000 in 2015/16. It may also be possible to carry forward unused annual allowances from up to three previous tax years.

However, for people earning over £150,000 a year, the annual allowance will reduce as from April 2016 by £1 for every £2 by which income exceeds £150,000, until it declines to just £10,000pa when income reaches £210,000.

Tax-efficient investments
After pensions, ISAs are the most tax-efficient form of investment for most categories of taxpayer, and the investment entitlement can be made into combinations of shares and share funds, fixed interest securities and cash. But the £15,240 annual allowance cannot be carried forward. Venture Capital Trusts and Enterprise Investment Schemes are higher risk but provide both Income Tax and Inheritance Tax advantages.

Charitable donations

Donations to charity via Gift Aid qualify for tax relief at the donor's highest marginal rate, and donations made before 31 January of the following tax year or the date when the donor's tax return is filed, can be carried back to the previous tax year. Gifts of quoted shares and land qualify for exemption from Capital Gains Tax as well as relief from Income Tax.

The end of the Tax Return?

HMRC has stated its aim that within the next four years, tax reporting will become almost entirely digital.

What should make this possible is that much of the information which taxpayers currently enter on their Tax Returns is being accessed directly by HMRC from the people making the payments, so that returns will in future be substantially pre-populated.

Sources will include not only employers but also banks and building societies and government agencies, such as the Department of Work and Pensions. Rental income from buy-to-let properties and profits from on-line trading via the likes of eBay may also be included.

A benefit to taxpayers will be that, in the same way as with on-line bank accounts, they will be able to obtain a complete picture of their tax position at any time. The downside for small businesses, including landlords and the self-employed, is that as from 2018, they are to be required to update HMRC via the on-line system at least once a quarter

The first step is to sign up for on-line self-assessment via www.hmrc.gov.uk

"Flexible" ISAs

Under the current rules, if an investor wants to withdraw funds from an ISA and then replace those funds, this will count as an additional ISA investment, which could exceed the year's allowance.

However, with effect from 6 April, managers of ISAs (but not Junior ISAs) will be able to allow the reinvestment to be regarded as simply replacing the amount withdrawn within the current years allowance.

The rules are complicated, and provide that for savers with more than one year's ISA, withdrawals will be set first against the current year's subscriptions; and if the amount withdrawn exceeds the amount subscribed in the current tax year, the excess will be treated as a withdrawal from previous years' subscriptions. Clearly an area requiring qualified advice!

If you would like to discuss any of these matters further please contact:

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