

## Grayside Financial Services

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# 2016/17 Year End Planning

Keeping your taxes as low as possible – what you may wish to consider sooner rather than later

FACTSHEET

The 2016/17 year end for tax planning purposes is now only a matter of months away, with the deadline approaching on 5 April. Effective tax planning is about knowing the personal and business taxes you are liable to pay and acting to legally minimise them. It is also about maximising your net income and creating opportunities to invest and save tax-efficiently for the current and future needs of your business, your family and yourself.

While there is no doubt that the tax system is complex, you should not let complexity deter you from a simple goal: keeping your taxes as low as possible. We have provided some of the key areas you may wish to consider, if applicable to your particular situation.

## PERSONAL ALLOWANCE

Aim to ensure each spouse uses their full Personal Allowance for Income Tax purposes where possible. Annual income of less than currently £11,000 is not liable to tax. Spouses and registered civil partners should consider the possible transfer of income-producing assets to ensure that Personal Allowances are not wasted.

## PERSONAL ALLOWANCE FOR HIGH EARNERS

Your Personal Allowance goes down by £1 for every £2 that your adjusted net income is above £100,000. This means your allowance is zero if your income is £122,000 or above. If appropriate to your particular situation, making charitable donations that qualify for Gift Aid could reduce total income. In addition, annual gross personal pension contributions may be deducted from total annual-earned income for the calculation of adjusted income, and certain other investment structures may qualify for significant tax rebates which could be used to offset the reduction. Also, moving investments that generate income from taxed to tax-efficient environments could also reduce an individual's 'net adjusted annual income'.

## SPOUSE REMUNERATION

If a self-employed person or family company employs a spouse to assist in the running of the

business, the spouse could be remunerated fairly to utilise the tax-free Personal Allowance. It is possible to set the earnings at a level whereby no tax or National Insurance Contributions will be due but entitlement to State Retirement Pension and other benefits is protected. Obtaining professional advice from a qualified accountant is important prior to taking any action due to the 'wholly and exclusively' rule.

## MINOR CHILDREN AND TEENAGERS

Minor children are entitled to Personal Allowances. There are restrictions on the amount of income that a child can derive from a parent, but gifts from other relatives can be considered. Junior Individual Savings Accounts (JISAs) can be funded by parents. Teenaged children can be employed in family businesses providing legal restrictions, and national minimum wage issues are taken into account. Obtaining professional advice from a qualified accountant is important prior to taking any action due to the 'wholly and exclusively' rule.

## INDIVIDUALS WITH NO TAXABLE INCOME

Pension contributions of up to £3,600 gross per year can be made by individuals with no taxable income. The net contribution after tax relief contributed at source by the UK Government would be just £2,880.

## TAX-RELIEVABLE PENSION CONTRIBUTIONS

The Annual Allowance for making tax-relievable pension contributions is £40,000, so consideration should be made to utilising the full

Annual Allowance for 2016/17 by 5 April 2017. 'Tax-relievable pension contributions' relates to personal contributions and the availability of the Annual Allowance, and any carry forward relief is subject to 100% Net Relevant Earnings (NRE). It is possible to carry forward unused Annual Allowances from the previous three tax years, so it may be possible to receive tax relief in the current tax year on contributions in excess of £40,000 with a little planning.

## TAX-RELIEVABLE PENSION FOR HIGH EARNERS

For high earners, the Annual Allowance definition is more complicated, but those with an annual 'adjusted income' of more than £150,000 will be reduced to as little as £10,000 for 2016/17. There are two triggers for a reduction in the annual allowance, both of which must apply for the allowance to be reduced. The first is that the individual's adjusted income for the year is more than £150,000. The second is that the individual's 'threshold income' for the year is more than £150,000 less the standard annual allowance for the year. Thus the threshold income limit is £110,000 for 2016/17 (£150,000 less the standard annual allowance of £40,000).

Essentially, 'adjusted income' is all income including pension contributions (both individual and employer contributions), whereas threshold income excludes pension contributions.

Where the individual has both adjusted income of more than £150,000 and threshold income of more than £110,000 for 2016/17, the annual allowance of £40,000 is reduced by £1 for every £2 by which adjusted income exceeds £150,000. The maximum reduction is £30,000,

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meaning that the minimum allowance for 2016/17 is £10,000. This will apply to anyone with adjusted income of more than £210,000 (and threshold income of more than £110,000).

### PENSION LIFETIME ALLOWANCE

The pension Lifetime Allowance – the total amount of UK pension savings each individual is allowed to build up in their lifetime – is currently £1 million. An individual is able to accumulate more than the Lifetime Allowance, but the sum in excess of the Lifetime Allowance will be subject to a 55% tax charge. The 'flexible drawdown' pension rules now in place from 6 April 2015 onwards allow individuals the opportunity to plan their affairs to manage the level of the money they take from their pension pot to both minimise annual Income Tax liabilities and keep within the Lifetime Allowance. A review of what you could draw down as income from your pension funds before 6 April 2017 could prove worthwhile.

### TAX-FAVOURABLE INVESTMENTS

If appropriate to your particular situation, the use of tax-favourable investments such as Individual Savings Accounts (ISAs), Enterprise Investment Schemes (EISs), Seed Enterprise Investment Schemes (SEISs) and Venture Capital Trusts (VCTs) should be reviewed in conjunction with your financial adviser. Up to £15,240 per person (so up to £30,480 for a married couple) can be invested in an ISA for the 2016/17 year. EISs, SEISs and VCTs are generally considered high risk investments and may not be considered suitable for all types of investors.

THE VALUE OF INVESTMENTS AND INCOME FROM THEM MAY GO DOWN. YOU MAY NOT GET BACK THE ORIGINAL AMOUNT INVESTED.

### TIMING OF INCOME

Taxable incomes may fluctuate from year to year as a result of one-off payments or changes in circumstances. Consideration should be given to the benefits of accelerating or deferring the taxation point of investment income and employment bonuses, and also to the timing of the payment of dividends paid out by family owned companies.

### COMPANY DIVIDENDS

From 6 April 2016, company dividends are still treated as the top slice of income but will no longer be grossed up, and will be taxed at 7.5% in the basic rate band, 32.5% in the higher rate band and 38.1% in the additional rate band. However, the first £5,000 of dividends will be tax-free to the recipient, no matter which tax band you fall in.

### CAPITAL GAINS TAX

It's important to consider utilising your tax-free Capital Gains Tax Annual Exemption, currently £11,100. Each spouse or registered civil partner is entitled to the exemption each year, so gifts between spouses prior to sales of assets may be tax-effective. It may be worth crystallising capital losses where gains in excess of the Annual Exemption have been made. The deferral of sales until after 5 April may see tax paid at lower rates and provide significant cash flow benefits in terms of when tax needs to be paid.

### INHERITANCE TAX

The use of and the carrying forward of the £3,000 annual exemption should be reviewed, together with other possible exemptions such as those for small gifts of up to £250 per

individual, regular gifts out of normal annual income and tax-free gifts in consideration of marriage, which can range between £1,000 and £5,000 depending on the relationship with the person getting married.

LEVELS AND BASES OF, AND RELIEFS FROM, TAXATION ARE SUBJECT TO CHANGE.

### REVIEW YOUR WILL

A review is due if there has been: a birth or a death; a marriage or a divorce; a move abroad; a significant change in the value of your estate; a new business or the disposal of a previous business; a retirement; or a relevant change in tax law. We can help you to work through changes to keep your estate plan up to date. ■

## WANT TO EXPLORE THE OPTIONS AVAILABLE TO YOU?

We all have to pay our taxes, but within the legal framework there are numerous ways of saving tax and making sure you do not pay more than is absolutely necessary. If you would like to explore the options available to you in preparation for the 2016/17 year end, please contact us sooner rather than later.

