Forbes Dawson
THE TAX SPECIALISTS

Private Client
Year End Tax Planning – 5 April 2015

Quick summary

- It is important to maximise all pension contributions and charitable donations pre 5 April 2015.
- Utilise annual capital gains tax exemption of both husband and wife.
- Use the generous ISAs allowance of £15,000.
- Utilise your inheritance tax gift exemptions of £3,000 for this and the previous year.

Contact us

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Important Information

Year End Tax Planning – Reducing Your Tax Bill

The period leading up to 5 April is one of the best times to review your taxes and finances to reduce the taxman's take.

Here is our summary of the important year-end tax tips to identify areas that should be considered prior to 5 April 2015 and how to structure your affairs for the new tax year. Tax advice should be sought prior to implementing any of the suggestions below.

Summary

- Look to make use of available tax reliefs and allowances to reduce your rates of tax;
- Make use of ISA allowances to save tax-free;
- Consider disposing of investments to utilise your capital gains tax exemption;
- Anticipate potential changes in the coming election year.

Pre 5 April 2015 planning

Income Tax

Deferral of income

- Deferral of payment of dividends or bonuses is a simple way to reduce the tax due on 31 January 2016. Deferring payment until 6 April 2015 will give a further 12 months to pay the tax.

Maximise Pension Contributions

- You can contribute up to £40,000 in 2014/15 to your pension and attract tax relief at your marginal rates.
- This contribution can be increased to a maximum of £190,000 if you have unused relief brought forward from the previous three years.
- If you don't already have a pension, set one up prior to 5 April to enable the carry forward of the 2014/15 annual allowance of £40,000.
- If your income exceeds £100,000 you will suffer 60% tax on income between £100,000 and £120,000, due to the loss of your personal allowance. You could avoid these higher rates entirely by making a £16,000 contribution to your pension. HMRC will contribute £4,000 to your pension and you will attract £4,000 higher rate tax relief. As a result of these tax breaks and the reinstatement of your personal allowance, the cost to you of making a £20,000 pension contribution in this bracket of income, is only £8,000.
- All individuals, including children, can attract annual tax relief on personal pension contributions of £3,600 (gross) – a tax efficient savings plan for children.

Gift Aid Payments

- Donating to charity can reduce tax liabilities at the highest possible rate.
- If a Gift Aid donation is made in the 2015/16 tax year, tax relief can be carried back against 2014/15 income. The donation must be made before the tax return filing date of 31 January 2016.

Tax Efficient Investments

ISAs

- Make use of your annual allowance to invest in an ISA before the year end. It is not possible to carry forward your allowance.
- The new NISA allows up to £15,000 to be invested in stocks, shares or cash.
- ISAs offer a way of saving, entirely free of income and capital gains tax. Make sure that you are maximising on your tax-free investments.

SEIS/EIS/VCT

- Investment in tax advantageous investments such as the Enterprise Investment Scheme ('EIS') and the Seed Investment Scheme ('SEIS') can offer significant tax breaks.
- Investments into shares qualifying for SEIS gives 50% income tax relief on investment up to £100,000 per annum. It is possible to carry back contributions made by 5 April 2015 and attract relief in 2013/14. These shares are exempt from capital gains tax when held for the required three year period.
- EIS investments attract income tax relief at 30% on investments of up to £1m in 2014/15. Again they are exempt from capital gains tax when held for least three years.
- Investment into a VCT attracts 30% income tax relief on investments of up to £200,000. There is no income tax on dividends and the shares are exempt from capital gains tax provided the investment is held for five years.

Capital Gains Tax

Annual Exemption - £11,000

- Review your investment portfolio and look to realise gains to utilise your capital gains tax exemption of £11,000. You cannot carry forward this exemption, so make use of it to uplift your investment values.
- Married couples can take advantage of two capital gains tax exemptions by transferring assets between themselves before making the disposals.
- Consider selling assets standing at a loss to offset the loss against any capital gains realised in the year over the capital gains tax exemption.
- It is possible to "bed and ISA" investments which means selling the assets on the market, with your ISA purchasing those investments. This allows you to realise gains equivalent to your capital gains tax exemption but retain the asset in your ISA.
- It is possible to defer any capital gain realised as far back as 6 April 2012, if the gain is reinvested by 5 April 2015 into shares of a qualifying unquoted trading company through EIS or SEIS.
- Check whether you hold any investments that have become of negligible value by 5 April 2015. If so, this capital loss can be used in 2014/15 against capital gains realised.

Inheritance Tax

- Utilise the £3,000 annual inheritance tax allowance on gifts. If the previous year's allowance has not been utilised, make sure gifts are made of up to £6,000 before 5 April 2015. This allowance can only be carried forward one year.
- Review your income and expenditure for the year and consider establishing a pattern of making gifts out of income. Such gifts are outside the inheritance tax net and are a simple way of reducing your estate.

Planning for 2015/16

Spreading Income

- Married couples can arrange their affairs more efficiently by ensuring sufficient assets are held by each partner to generate income to utilise each of their basic rate bands.

Child Benefit

- Child benefit will be clawed back if your income exceeds £50,000. By reallocating income between partners so that each individual receives less than £50,000, or electing to receive non-taxable benefits instead of salary, could avoid this claw back.

Other Ideas

- Consider Principal Private Residence Relief elections if you have purchased a second home in the last two years.
- Ensure wills are up to date and life assurance policies written into trust.