PKF Littlejohn LLP

PKF

Accountants &
business advisers

Helping you make the most of tax-saving opportunities

Year end tax strategies 2017

www.pkf-littlejohn.com

Year end tax strategies 2017

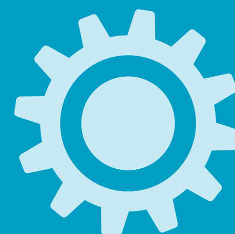
Key points

CAPITAL GAINS EXEMPTION

£11,100 for 2016/17

ANNUAL INVESTMENT ALLOWANCE

£200,000 per financial year



INTEREST

Up to £1,000 tax free per year

DIVIDENDS

£5,000 tax free per year

COMPANY CARS

Is your Company Car a tax efficient strategy?

INHERITANCE TAX

Review your wills and Lifetime Gifts for IHT

ISA ALLOWANCE

£15,240 for 2016/17

PENSION CONTRIBUTIONS

Are you maximising your relief?

Tax planning is a year-round activity, but it takes on even more importance as the year end draws nearer.

Taking appropriate action ahead of 5 April will help to ensure that you are able to make the most of the tax-saving opportunities available to you and your business.

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About this guide:

While most taxation changes take effect from the start of the financial year, or tax year, some may not take effect until later. Where relevant, details of these changes have been included in this guide. Throughout the guide, ‘HMRC’ refers to HM Revenue & Customs. References in this guide to ‘spouses’ include ‘civil partners’.

Introduction

The Government's plans to trigger Article 50 of the Treaty of Lisbon by the end of March, thereby starting the two year process of the UK leaving the EU, are likely to lead to a period of economic change. However, the implications of Brexit, both on the economy generally and in terms of the potential knock-on effects for the tax system, remain uncertain.

This is why we encourage you to keep your options flexible, be in a strong position to take advantage of any opportunities that may arise in the future, and mitigate against any shocks.

As your accountants and tax advisers, we can advise on how these changes will affect you, and suggest strategies to help boost your business's profitability, reduce your tax liabilities and maximise your personal wealth. These may include:

- taking advantage of the tax breaks available to you and your business
- planning to extract profits from your business tax-efficiently
- utilising tax-advantaged savings options (including pensions)
- minimising the inheritance tax due on your estate.

Planning and careful timing are crucial. In some cases, the timing of a transaction or investment determines when any reliefs affect your tax payments or your tax code.

This guide contains some key points to consider ahead of the year end - but don't wait until 5 April. The matters considered here will also be relevant throughout the following tax years unless we specify otherwise - or if the legislation changes - so keep referring to this guide throughout 2017. And look out for the Budget on 8 March, as that may affect your plans.

Sending us your accounting and personal records in good time gives us more of an opportunity to help you manage cash flow by giving you early warning of any tax payments due. And of course, advanced notice will help to ensure that you avoid any unnecessary penalties and interest levied by HM Revenue and Customs.

Talk to us now for advice on making the most of the opportunities available to you and your business this year.

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1. Your business

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It's your company – how to keep more of the profit

While there are many ways of extracting profit from your company, each has its own implications for the amount of tax you pay, and for the company itself. Below are some key planning strategies you might consider.

Dividend versus salary/bonus

The question of whether it is better to take a salary/bonus or a dividend requires careful consideration, particularly as sweeping changes to the dividend taxation rules came into force from 6 April 2016.

Compared to 2015/16, the rates of income tax applicable to dividend income have increased by an effective 7.5% across the board. This arises due to a combination of new rates applicable to dividend income, and the removal of dividend tax credit. The comparable rates are as follows:

	Effective rate in 2015/16	Effective rate now
Basic Rate band	0%	7.5%
Higher Rate band	25%	32.5%
Additional Rate band	30.6%	38.1%

Every taxpayer now receives a dividend tax allowance which will exempt the first £5,000 of dividend income.

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, a salary or bonus including the NIC cost, is generally tax deductible for the company, whereas dividends are not.

In many circumstances, even with the change of rules, extraction of profits from a company by way of dividend, rather than salary, is likely to be the preferred route. However, compared to prior years, the differential is now far lower.

There may, however, be some circumstances where it may be beneficial to take some salary – for example if you are over 65 and so do not pay employee's National Insurance, or if you want to make pension contributions.

Consider timing of income

If you are already in a higher rate income tax band for 2016/17 but anticipate that this will reduce in future years, you may wish to defer income, such as paying yourself a bonus or salary in the next tax year, or declaring dividends after 6 April. Conversely, if your income is low this year and you anticipate moving into a higher tax band next year, you may wish to accelerate payments to the current year.

Dividend income is taxable in the tax year in which it is legally declared in accordance with company law. Backdated dividends, or dividends declared where the company did not have sufficient distributable reserves to cover the distribution, will be invalid. A dividend does not have to be cash-settled to be legally declared - it could be placed in a loan account for the shareholder to draw down; however, the accounting must correctly reflect this.

To be legally effective, any deferral of employment income should take into account any contractual rights that you might have, as an office holder or employee, as to the amount and timing of the payment and any reputational issues for you and the company where significant tax savings may arise.

Capitalisation

For those expecting to liquidate their companies in the next few years, profits might be left in the company to be drawn as capital.

Current rules allow retained profits distributed on liquidation to be subject to capital gains tax, with a potential tax rate as low as 10% if Entrepreneurs' Relief is available. However, caution is advised as high cash reserves held without a clear business purpose or substantial investments can jeopardise Entrepreneurs' Relief or IHT Business Property Relief.

Incorporation

Incorporation may give more scope for saving or deferring tax than operating as a self-employed person or partner.

Incorporation may not suit all circumstances, and the 'IR35' rules specifically counter the use of 'personal service companies' to reduce tax. Contact us to find out how incorporation might apply to you and your business.

Tax-free allowances

Tax-free allowances, such as mileage payments, apply when you drive your own car or van on business journeys.

The statutory rates are 45p a mile for the first 10,000 miles and 25p a mile above this. If you use your motorbike the rate is 24p a mile, and you can even claim 20p a mile for using your bicycle.

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Childcare

Parents of young children may be entitled to tax and NIC-free childcare vouchers, including the provision of vouchers of up to £55 a week, provided by their employer.

Where both parents are employees of the same or different employers, the exemption is effectively doubled. The costs are usually tax deductible to the employer.

For people who joined the scheme before 6 April 2011, the maximum value of childcare vouchers for each parent is £55 per week. For those joining now, or who joined on or after 6 April 2011, the limits are:

- if your top tax rate is 20% – £55 per week
- if your top tax rate is 40% – £28 per week
- if your top tax rate is 45% – £25 per week

By using the available allowances and exemptions, your family could maximise tax-free income.

Pensions

Employer pension contributions can be a tax-efficient means of extracting profit from a company, as long as the overall remuneration package remains commercially justifiable.

The costs are usually deductible for the employer and free of tax and NICs for the employee.

Property

Where property that is owned by you is used by the company for business purposes (such as an office building or car park), you are entitled to receive rent, which can be anything up to the market value.

The rent is usually deductible for the employer. You must declare this on your Tax Return and pay income tax, but a range of costs connected with the property can be offset.

Receiving rent may mean a bigger Capital Gains Tax (CGT) bill when you come to sell the property, so care needs to be taken to weigh up the advantages and disadvantages.

Taking advantage of capital allowances

Depreciation is not tax-deductible but capital allowances permit the costs of capital assets to be written off against taxable profits. The Government sets the rates, often with the stated goal of encouraging greener investment and helping smaller businesses.

An Annual Investment Allowance (AIA) – in effect, a year-one write off – is allowed for most businesses on expenditure on most types of plant and machinery (but not cars, to which different rules apply). A limit of £200,000 has applied since 1 January 2016.

'Greener' investment is encouraged through specific 100% allowances available for some investments, including energy-saving equipment and low-emissions cars. Otherwise the general rate of annual writing down allowance is 18% on the reducing balance, with an 8% allowance for certain categories, including cars with CO_2 emissions exceeding 75 g/km, long life assets and certain specified integral features of buildings.

Typically, a purchase made just before the end of the current accounting year will mean the allowances will usually be available almost a year earlier than if the purchase was made just after the year end. In the same way, the disposal of an asset may trigger an earlier claim for relief or even an additional charge to tax. As the level of AIA is not aligned to the accounting period of a business, or to statutory tax years, there are complex rules to determine how much relief is available in each given tax or accounting year. Therefore it is sensible to discuss any significant capital expenditure, and the timing of such, with us in advance to ensure you can maximise relief.

Losses generated by capital allowances in businesses subject to Income Tax may also be subject to new capping rules.

Cash basis for small businesses

Small unincorporated businesses can now use the cash basis of accounting for calculating taxable income. This applies to sole traders and partnerships where turnover does not exceed twice the VAT threshold (currently £82,000) but does not apply to limited liability partnerships or partnerships with a corporate member.

Those opting for the cash basis should consider whether it is possible to defer income receipts until after 5 April and accelerate expenditure so that it is incurred before the end of the tax year.

A further simplification for all unincorporated businesses allows them to use flat rate deductions for particular items of business expenditure, which will include business mileage and home office use. Businesses adopting the cash basis must use flat rate deductions for business mileage but can choose whether they adopt other flat rate deductions.

Barristers have special rules allowing them to choose to use either the accruals basis or cash basis.

> **‘Greener’ investment is encouraged through specific 100% allowances available for some investments, including energy-saving equipment and low-emissions cars.**

Is there a tax-efficient alternative to company cars?

Substantial tax costs aside, the company car remains an important part of the remuneration package for many employees – and an essential business tool for many employers. However the amount on which the employee is charged to income tax is set to continue to rise steeply in the years ahead.

With our help, you can determine whether the company car is still a tax-efficient option; whether a qualifying ‘van’ might be an alternative; and ultimately decide on what is the best course of action for you and your business.

The car benefit and car fuel benefit (where any fuel for private use is provided with the car), on which the employee pays income tax at up to 45% (or even 60%) and the employer pays 13.8% Class 1A National Insurance Contributions (NICs), are calculated at up to 37% of the list price in respect of the car and up to 37% of a notional £22,200 in respect of the fuel for 2016/17, with an inflationary increase anticipated from 5 April.

These tax and national insurance costs could mean that a company car may not be the most tax-efficient option for either the employer or the employee. Company cars are usually retained for three or four years. Changes in the scale rates already announced for future years may mean that cars provided now could be subject to even larger tax charges before the term expires.

For some, an employer provided ‘van’ may be a viable alternative to a company car: the imputed taxable benefit is £3,170 for the van and up to £598 for fuel. In 2016/17, if a van emits no CO2 emissions, only 40% of the benefit is assessed, but this rate will increase in annual increments until 2020/21, when the full benefit will be assessed.

The company car or van benefit is currently subject to a Class 1A NIC charge of 13.8%, payable by the employer.

It may be worth reviewing the company car policy completely, as it could prove more beneficial to pay employees for business mileage using their own vehicles at the statutory mileage rates. This option is more likely to be beneficial when business mileage is high.

2. Your income

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60% is still the hidden top tax rate

Whilst the headline 'top rate' of income tax is 45%, the fact remains that for some taxpayers the current top marginal rate is actually 60%.

This effective rate of 60% applies to those with a taxable income for 2016/17 of between £100,001 and £122,000, who lose £1 of personal allowance for every £2 by which their adjusted net income exceeds £100,000 – giving an effective 60% tax rate on up to £22,000 of their income, which is well below the £150,000 threshold at which the official top rate begins to bite.

If you find yourself in this position, you should talk to us, as there are two key routes to avoid this 60% tax charge: reducing your taxable income or increasing allowances. We can discuss your options, which may include delaying dividends to the next tax year or increasing your pension contributions or Gift Aid donations, in order to take your 2016/17 income out of the 'invisible' 60% tax band. It is also possible to make Gift Aid donations next year and carry them back one year.

0% tax rate for many

In contrast, the new Personal Savings Allowance (which was introduced on 6 April 2016) allows basic rate taxpayers to have up to £1,000 of savings income taxed at 0% (£500 for higher rate taxpayers), providing scope to shelter some savings income from tax.

Dividends no longer come with a tax credit, but the first £5,000 of dividend income for individuals is taxed at 0% too. There are also exemptions from tax for those who have up to £1,000 of gross business or rental income.

Escaping the Child Benefit trap

Families receiving Child Benefit where at least one parent has 'adjusted net income' of more than £50,000 are liable for a claw-back of benefit. Where the adjusted net income is more than £60,000, all of the Child Benefit will be withdrawn. Where income is between £50,000 and £60,000, a portion will be lost.

Although Child Benefit is normally paid to the mother, it could be the father or step-father who suffers the claw-back through the tax system. The claw-back will normally occur by including it in a Self-Assessment Return or through the PAYE code. Alternatively, the family can elect not to receive Child Benefit.

Opting out may not be the best choice for those with incomes between £50,000 and £60,000 because they would lose out on the portion they are entitled to. Those who choose to opt out should still complete claims for any new children, so that parents who stay at home to look after their children can receive credits to their national insurance contribution record, which count towards their state pension.

For some there may be opportunities to share income differently between partners so as to reduce the higher income below one of the threshold amounts. The 'adjusted net income' can be reduced by making Gift Aid donations to charity or paying money into a pension. Those who are employed may be able to agree a salary sacrifice arrangement with their employer, through contributions to their pension, thereby making further savings on National Insurance for both employer and employee. Salary sacrifices in return for other non-taxable benefits, such as childcare vouchers, may also be possible.

Notify a change of circumstances for Benefits

Entitlement to tax credits and other means tested benefits may depend on your income for a tax year.

Other benefits may be subject to conditions that may change over time. Benefit entitlement carries with it the responsibility to notify the relevant authorities if circumstances change. Failure to do so could make you liable for a £50 penalty or invite investigation for benefit fraud. Relevant changes may include:

- getting married, entering into a civil partnership or moving in with a partner
- getting a new job, a pay rise or a bonus
- receiving an inheritance
- taking in a lodger
- travelling or moving abroad
- recovery from a qualifying illness or injury

Make sure you know what changes of circumstances you need to notify. Where entitlement depends on income for a tax year, it is better to notify the change before the end of the tax year to avoid building up an overpayment or incurring penalty charges.

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Avoiding the 45% tax rate for trustees

Trustees of discretionary and accumulation trusts are liable for the 45% trust rate of income tax.

There are options open to avoid the impact of this trust rate in future tax years. Changes in investment strategy may have to be implemented over an extended time frame but, in some cases, a simple change to the terms of the trust may be appropriate.

Cap on income tax reliefs

There is a limit on the amount of tax relief that can be obtained against income tax for certain deductions.

The limit is the greater of £50,000 or 25% of your adjusted net income. Adjusted income for this purpose is the amount after deducting pension contributions and Gift Aid donations.

Pension contributions are not included because they are already subject to different limits. Gift Aid relief remains unaffected but the following reliefs – among others - are capped:

- **Trading losses relieved against general income**, including the carry back reliefs for the early years of trading and post-cessation expenses. However, there is no capping of losses attributable to overlap relief and Business Premises Renovation Allowances (BPRA);
- **Property losses relieved against general income** (i.e. arising from capital allowances or agricultural expenses) but excluding BPRA. Post cessation property expenses are also capped.
- **Employment Loss Relief against general income**, including deductions available for former employees
- **Share loss relief against income tax** on non-Enterprise Investment Scheme or Seed Enterprise Investment Scheme shares. (This does not affect capital gains relief for losses)
- **Losses on Deeply Discounted Securities**
- **Qualifying loan interest** paid on loans to buy an interest in certain types of company, or to invest in a partnership.

You need to be aware of these restrictions if you are seeking to reduce your income tax liability for the year by claiming one of these deductions, and your claim exceeds £50,000 or 25% of your adjusted net income.

Charitable donations

When you make a donation to charity, you are very likely to be asked to make your gift under the Gift Aid scheme. If you choose to do so, and you are a higher rate taxpayer, then you are entitled to tax relief.

The charity can reclaim the basic rate tax which is deemed to have been deducted before your gift is made. The effect of this is that the charity can currently reclaim just over 25% of the amount you give.

If you pay tax at the higher or additional rates, you can claim tax relief for the gross value of your donation. The relief is the difference between your top rate of tax and the basic rate. Thus, if you are a 40% taxpayer and donate £1,200 to charities over the year, you are entitled to £300 of additional personal tax relief. This is worth £375 if you are paying tax at 45%. Gift Aid relief is not subject to the cap on income tax reliefs.

Donations can be made regularly - by direct debit, for example - or as a one-off. They do not even need to be made in cash; talk to us about gifts by businesses and gifts of non-cash assets.

It is also possible to carry back the tax relief for one year, which can be useful in avoiding some of the tax-traps highlighted above.

"If you pay tax at the higher or additional rates, you can claim tax relief for the gross value of your donation. The relief is the difference between your top rate of tax and the basic rate."

> Non-domiciles who are resident for 15 out of the previous 20 years will be deemed domiciled here for all tax purposes. Consequently they will no longer be able to access the remittance basis.

Residence and domicile

The statutory residence test introduced in 2013 has now started to bed in but many are still unaware of the changes and still work to the previous 90 day test. We now have one of the most complicated residence tests in the world and internationally mobile individuals should check their residence status every year.

The test is in three parts. Two parts determine whether someone is either conclusively resident or non-resident. The third part applies if neither of these tests can be satisfied. In this part, various connecting factors - such as retaining a home here, having a resident family or working in the UK - are taken into account alongside the number of days spent in the UK. It is harder to lose UK residence status than to acquire it. Those who consider themselves to be non-UK resident will need to reconsider their status under the new rules to see if they still qualify.

Non-domiciles who are resident for 15 out of the previous 20 years will be deemed domiciled here for all tax purposes. Consequently they will no longer be able to access the remittance basis. Formerly, the deemed domicile status only applied for inheritance tax. In addition, those living abroad who were born in the UK with a UK domicile of origin will be treated as deemed domiciled in the UK if they become resident in the UK in future. They may wish to accelerate income and gains where possible it they intend to keep the income or proceeds abroad.

Those who become deemed domiciled from 6 April 2017, have paid the remittance basis charge for at least one year, and subsequently make capital gains on foreign assets will be able to calculate the gain based on the market value at 6 April 2017. If the gain will be remitted to the UK it may be best to postpone the disposal until the new tax year.

3. Your property

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High value residential property

The Annual Tax on Enveloped Dwellings (ATED) was introduced in 2013.

The provisions apply where the residential property is held by certain non-natural persons (NNPs). These include companies, partnerships with corporate partners and certain collective investment schemes. From 1 April 2016, the threshold for property values was lowered to £500,000.

The due date for both filing returns and paying the ATED charge for 2017/18 is 30 April 2017.

The amount of the charge was intended to rise annually by the increase in the CPI, although the 2015 increases were much more. The updated charges for the 2017 year are as follows:

Property value	2017 Charges
Over £500,000 to £1 million	£3,500
Over £1 million to £2 million	£7,050
Over £2 million to £5 million	£23,550
Over £5 million to £10 million	£54,950
Over £10 million to £20 million	£110,100
Over £20 million	£220,350

There are a number of reliefs from the charges to exclude genuine business activity and property run as a business or provided to employees. Typically, the structuring of a UK property purchase through a company (known as 'enveloping') would have been done for anonymity or for inheritance tax planning. Nevertheless, many who are now caught by the new charges, particularly those with properties in the £0.5 million to £2 million band, may wish to consider whether to de-envelope their property. The decision is not an easy one since tax liabilities could be generated in the de-enveloping process. The Government is looking at measures to alleviate these.

Stamp duty land tax (SDLT) for second properties

The rate of SDLT charged on second properties increased by the addition of 3% for each rate band from April 2016. If you had bought a second home costing £300,000 before 31 March 2016, the SDLT payable would have been £5,000. The same purchase today would cost £14,000 in SDLT.

The increased charge applies to second homes, buy-to-let and homes purchased for parents or children. It would also affect a couple buying a home together where one of them already owns another property. If you buy a new home to live in but do not sell your existing home straightaway, you will pay the higher charge but you may have it refunded if you sell your existing home within eighteen months.

Companies will also be charged the higher rate, unless they hold more than 15 properties.

Furnished holiday lettings

Certain tax benefits are afforded to those who let furnished holiday accommodation either in the UK or the EEA, which include:

- income treated as pensionable earnings
- capital allowances for new expenditure
- capital gains tax entrepreneurs' relief
- business assets roll-over relief
- relief for gifts of business assets
- exemptions for disposals of shares by companies with a substantial shareholding.

Losses made in a qualifying UK or EEA furnished holiday lettings business may only be set against income from the same furnished holiday lettings business.

The minimum period over which a qualifying property must be available for letting to the public in the relevant 12 month period is 210 days and the minimum period over which a qualifying property is actually let to the public in the relevant period is 105 days. For individuals with a continuing furnished holiday let business, the relevant 12 month period will be the tax year to 5 April. If multiple properties are let as furnished holiday accommodation, the occupancy rules can be applied on an averaged basis.

If a previously qualifying property fails to meet the letting condition of 105 days, there is a facility to make a 'period of grace' election so that the property may still qualify for furnished holiday letting reliefs for up to two years.

The furnished holiday letting season might now typically need to span the period 1 April to 31 October in order to meet the 210 day test and the property would have to be let for 50% of that time (15 weeks out of 30) to meet the 105 day test. Those who narrowly failed to meet the targets during the 2016 season may be able to make up the difference by starting the 2017 season earlier. Property businesses are excluded from the new rules, allowing some unincorporated businesses to use the cash basis of accounting, but they are able to use the simplified

arrangements for certain business expenses, such as business mileage and use of home as an office.

If you are contemplating capital expenditure on your properties, now is the time to consider investing: the Annual Investment Allowance for new qualifying capital expenditure has been £200,000 per annum from 1 January 2016.

Profits from furnished holiday letting count as earnings for pension contributions. In order to obtain relief for pension contributions against 2016/17 income, the contributions must be paid by 5 April 2017 so you will need to estimate your income in advance of the year end.

Check out your tenant

For new tenancies, landlords in England must now check the identity of any adult living in their rented property, whether or not they are named on the tenancy agreement and whether or not there is a written agreement. This applies to all lettings, including lodgers.

Landlords must check that the individuals have the right to rent in the UK and must copy and keep relevant official documents. Fines of up to £3,000 can be levied for non-compliance.

Don't expect your letting agents to do this for you unless you have signed a written agreement for them to do so.

Finance costs

Relief for landlords' finance costs, including mortgage interest, will be gradually restricted to the basic rate of tax (currently 20%) over four years. For those paying higher rates of tax, this could have a major impact. Some may find they are paying tax when there is no actual profit.

Although the changes were announced some time ago, they will apply from 6 April 2017 and so landlords with substantial borrowings need to review their position as soon as possible as drastic action may be required before the change starts to bite. We can discuss your options with you.

Corporate landlords are not affected by these changes, but for very large companies, with interest expense in excess of £2 million; separate rules may restrict the level of available deduction, regardless of the purpose of the borrowing.

Wear & tear allowance

The 10% wear and tear allowance currently available to landlords of fully furnished property was replaced by a renewals basis allowance from 6 April 2016.

This covers the replacement of hard and soft furnishings, appliances and kitchen equipment. The renewals basis also applies to partially furnished property.

The change does not affect furnished holiday lettings, for which capital allowances are still available for qualifying capital expenditure.

Rent-a-room relief

From 6 April 2016, the threshold for rent-a-room relief was increased from £4,250 to £7,500.

> “Although the finance cost changes were announced some time ago, they will apply from 6 April 2017 and so landlords with substantial borrowings need to review their position as soon as possible as drastic action may be required before the change starts to bite.”

4. Your assets

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Capital gains tax

The annual capital gains tax exemption is £11,100 for individuals and £5,550 for most trusts for 2016/17. Gains up to this amount are not liable to tax. The allowance cannot be carried forward.

For individuals whose total taxable income and gains are less than the upper limit of the income tax basic rate, the rate of tax is generally 10%. For gains (including parts of gains) above that limit, the rate is 20%. The rate for trustees is also 20%. However, higher rates of tax apply where the gain arises from the disposal of residential property or carried interest. These gains attract a supplementary charge of 8% in all cases (thereby increasing the overall rates to 18% or 28%).

Individuals and trustees should review their capital gains position before 5 April with their investment advisors. For some, good tax advice will also be essential if you are, for example:

- leaving the UK
- returning to live in the UK
- a temporary non-resident
- a US citizen or Green Card holder
- dual resident
- a remittance basis user
- a settlor or beneficiary of an offshore trust

Entrepreneurs' Relief

The effective rate of CGT for gains qualifying for Entrepreneurs' Relief remains at 10% and the lifetime limit is £10 million. Nevertheless, disposals of business assets qualifying for Entrepreneurs' Relief may give rise to complications and care should be taken.

Legislation now prevents Entrepreneurs' Relief from being claimed on gains arising from the disposal of goodwill on incorporation of a business. In addition, gains arising on assets that are used in a business (such as a property used by a trade carried on by an individual) will generally only qualify for Entrepreneurs' Relief where the disposal of the assets arises at the same time as (or is connected with) the disposal of the business concerned.

Recent changes, however, permit gains deferred by Enterprise Investment Scheme (EIS) relief to qualify for Entrepreneurs' Relief when the gain is released (generally on the ultimate disposal of the EIS shares).

On a company re-organisation or sale involving the acquisition of loan notes that are Qualifying Corporate Bonds, it is possible to elect to disapply the normal deferral rules, so that a claim for Entrepreneurs' Relief can be made. This option is not available for loan notes that are not Qualifying Corporate Bonds, so Entrepreneurs' Relief could be lost if the new loan notes do not qualify for the relief.

Individuals who are taxed on the gains of an offshore trust under the beneficiary provisions cannot obtain the benefit of Entrepreneurs' Relief for gains attributed to them. Relief is still available for qualifying disposals where the gain is taxed on the settlor.

Remember that Entrepreneurs' Relief can also apply to property let as furnished holiday accommodation. Once the qualifying period of furnished holiday letting has been established, any previous use of the property is irrelevant. Thus, other property could be brought within the furnished holiday letting regime for a year before sale in order to claim the relief.

Investors' Relief

A new 10% rate of Capital Gains Tax applies for investors disposing of shares in trading companies where the shares were acquired by way of a fresh issue from an unlisted company.

However, the shares must have been issued after 22 March 2016 and held for at least three full years prior to disposal, so no disposals can yet qualify for this reduced rate. In addition, the investor must not at any point have a connection with the company as a working employee or director. However, if you plan to make such investments, it would be a valuable exercise for the future to confirm that these will qualify for the new relief.

If the conditions are met, relief will be automatic at the point of disposal. Similar to Entrepreneurs' Relief, however, the lower rate is only available on the first £10 million of lifetime qualifying gains, but is an additional relief, and unaffected by any Entrepreneur's Relief gains enjoyed in the future or historically.

Relief for trading losses

In certain circumstances, losses of a business may be offset against capital gains where they cannot be offset against income. Income losses claimed against capital gains are not subject to the new cap on income tax reliefs.

Enterprise Investment Scheme (EIS)

Gains made in the current or earlier years can be sheltered by reinvestment in qualifying EIS shares.

Purchases of EIS shares can be used to shelter gains made up to three years earlier. Gains deferred under the EIS are taxable at the CGT rates applicable at the time the deferral ends. Income tax relief is also available at 30% of the amount invested (maximum £1 million).

Seed Enterprise Investment Scheme (SEIS)

Running alongside the EIS, the SEIS applies to investments made in small, early stage companies carrying on, or preparing to carry on, a new business in a qualifying trade.

Income tax relief is available up to 50% of the amount subscribed but the maximum subscription is only £100,000. Gains realised on the disposal of assets in 2016/17 that are reinvested through SEIS in the same year will obtain a 50% exemption from capital gains tax. The income tax and capital gains tax reliefs may be carried back one year only and both must be carried back together.

Assets of negligible value

Where an asset became of negligible value in the year ended 5 April 2015, a claim for capital gains tax relief must be made by 5 April 2017.

Losses on certain shares in unquoted trading companies can be claimed against income tax, but this is now subject to a cap limiting the deduction to the higher of £50,000 or 25% of adjusted net income.

Main residence relief

Your main residence qualifies for a degree of exemption from capital gains tax, depending upon its use during the period of ownership and the size of its garden or grounds.

Where you have more than one residence, you may elect to nominate one of them as your main residence. Those who are living together as a married couple or civil partners may have only one main residence between them at any time and must elect jointly. In the absence of a valid election, the question as to which is your main residence is determined on the basis of fact. Once a valid election is in place, it can be varied at any time. This ability to elect, and to vary the election (known as 'flipping'), is often misunderstood and has rather unjustly been the subject of adverse press comment in the past.

The initial election can be made within two years of any change in the combination of residences available to you or when your domestic circumstances change, such that a joint election becomes necessary or ceases to be required. You should consider your position if you have bought, sold or rented a residence in the last two years or if your marital circumstances have changed in that time.

New conditions were imposed from 6 April 2015 so that you may only nominate a house as your main residence if it is located in the country in which you are resident for tax purposes, or you spend at least 90 nights there in the course of a tax year.

A property that has been your main residence at any time after 31 March 1982 also qualifies for exemption during the last eighteen months of ownership. This period is three years for a disabled person or someone moving into a care home. A variation of an existing election could be used to maximise relief by 'flipping' between properties (and possibly back again). This is often done within two years of acquiring a new residence or within two years of a sale.

You should review your position if you have bought a residence in the last two years or if you have recently sold one or are contemplating a sale.

Enveloped Dwellings

A capital gains tax charge applies to UK residential property valued at more than £500,000 and held by a non-natural person, such as a company.

The charge applies whether or not the entity is resident in the UK. The capital gains tax charge is limited to the increase in value since April 2013 (for properties valued over £2 million at that date) or at the time the company entered the regime due to a reduction in thresholds, if later. Any remaining gain may be liable to non-resident capital gains tax or corporation tax in the normal way. De-enveloping the property may incur tax charges and you should take professional advice before contemplating this.

Residential property and non-residents

Legislation has now been introduced to tax all non-residents on capital gains arising on disposal of UK residential property.

The charge only bites in relation to the increase in value after 5 April 2015. The application of the charge is complicated where it clashes with the ATED related capital gains tax charge and the anti-avoidance provisions relating to offshore trusts.

Lifetime planning for big inheritance tax savings

Formulating an estate plan that minimises your tax liability is essential. The more you have, the less you should leave to chance.

If your estate is large, it is likely to be subject to inheritance tax (IHT), which is currently payable where a person's taxable estate is in excess of £325,000 (the 'nil-rate band'). The nil-rate band will be frozen until at least 2021.

The Government has announced that an additional nil-rate band is to be introduced where a residence is passed on death to descendants such as a child or a grandchild. This will initially be £100,000 in 2017/18, rising each year thereafter to reach £175,000 in 2020/21.

IHT is currently payable at 40% on the value of taxable assets exceeding £325,000, and in some cases the value of assets given away up to seven years before your death can be brought back into account. So if you own your own home and have some savings and other assets such as shares and securities, your estate could well be liable.

It is essential to start planning early if you want to minimise your exposure to IHT. We can help you, but here are some of the key areas to consider:

- **Reliefs can reduce the IHT value of gifts**

  There are a number of IHT reliefs available. Perhaps the most important is relief on business and agricultural property, which effectively takes most of such property outside of the IHT net. As always, there are detailed conditions (including a two-year minimum holding period) but business and agricultural property will generally attract 100% or 50% relief.

  Difficulties can arise with business property relief in the context of companies with cash reserves and partnerships that hold shares in trading companies. There are a number of instances where business property relief will be denied or restricted, even though the structure as a whole may be trading. You may need to seek professional advice to maximise the reliefs due.

  If you have made a gift of assets qualifying for business or agricultural property relief, the relief can be denied if you die within seven years and the property no longer qualifies as business or agricultural. This will apply particularly if the original property has been sold by the recipient. You might consider taking out term assurance, written in trust, to cover the remainder of the seven year period if the original gift no longer qualifies for the relief.

- **Relief for liabilities**

  Recent rule changes disallow deductions for liabilities in certain circumstances. These include tax planning steps that may have been taken in the past to borrow against taxable assets and invest in non-taxable assets, such as business or agricultural property or excluded property for non-domiciles. You should review any borrowings in your estate to see if they are affected and whether the position can be remedied.

- **New 'excluded property' rule**

  Foreign assets owned or settled by a non-domiciled individual qualify as 'excluded property' and are outside of the scope of IHT.

  However, from 6 April 2017, foreign company shares will be liable to IHT to the extent that their value derives from UK residential property. A chargeable transfer by an individual or trustees in relation to such shares will be liable to IHT. The company will also be liable in relation to a chargeable transfer of the property.

  Non domiciled individuals holding UK residential property through a foreign company may consider transferring it to a trust before 5 April to take advantage of the lower rates of IHT paid by trustees. However they need to be prepared to give up any interest in the property and the shares to avoid a reservation of benefit.

- **You can claim exemption for some transfers**

  Transfers of assets between spouses or civil partners are generally exempt from IHT, regardless of whether they are made during a person's lifetime or on their death. In addition, the nil-rate band may be transferable between spouses and civil partners. This means that if the bulk of one spouse's estate passes on their death to the survivor, the proportion of the nil-rate band unused on the first death goes to increase the total nil-rate band on the second death. Where the recipient spouse is not UK domiciled or deemed domiciled but the donor spouse is, the spouse exemption is limited to a cumulative lifetime total of £325,000.

  Other exempt transfers include:

  - small gifts (not exceeding £250 per tax year, per person) to any number of individuals
  - annual transfers not exceeding £3,000 (any unused amount may be carried forward to enhance the following year's exemption)
  - certain gifts in consideration of marriage or civil partnership

"The Government has announced that an additional nil-rate band is to be introduced where a residence is passed on death to descendants such as a child or a grandchild. This will initially be £100,000 in 2017/18, rising each year thereafter to reach £175,000 in 2020/21."

  - normal expenditure out of income
  - gifts to charities.

- **Using lifetime gifts to reduce the IHT bill**

  Introducing a programme of lifetime gifts can significantly reduce the IHT liability on your estate. This has the advantage of allowing you to witness the benefits they bring to your family members, while also escaping IHT as long as you survive the gift by seven years and no longer continue to benefit from the gift yourself.

  A reduction in the rate of tax applies where lifetime gifts were made between three and seven years before death (note that the discount applies not to the gift but to the tax on the gift).

- **Trusts can make a difference**

  Trusts can be used to help maintain a degree of control over the assets being gifted, for example in the case of younger recipients. Life assurance policies can be written into trust in order that the proceeds will not form part of the estate on your death. Talk to us about using trusts to suit your planning needs.

  Using a trust in your Will can create a tax planning vehicle for your children that they would find more difficult to set up for themselves, because of the IHT charge that would apply to them on creation. IHT planning now starts one generation earlier.

- **An up-to-date Will is essential**

  Your Will is your ultimate opportunity to get money matters right. You should review your Will at regular intervals to ensure that it reflects changes in your family and finances, is tax-efficient, and includes any specific legacies you would like to give, including tax-free donations to charity. Your inheritance tax rate can be reduced to 36% if you leave at least 10% of your estate to qualifying charities but the rules are complex, particularly when your estate includes trust assets.

- **Have a clear plan**

  Through lifetime IHT and estate planning you can reduce the liability to IHT, protect family wealth and ensure that you leave clear and complete instructions as to how your estate is to be distributed on your death.

  We can help you plan to minimise the tax due on your estate, ensuring that more of your wealth passes to your loved ones rather than into the hands of the taxman.

5. Your savings and investments

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St James's Place is authorised and regulated by the Financial Conduct Authority.

Make the most of your ISA allowance

ISAs have undergone significant changes in recent years, and the rules are now much simpler when it comes to investing in these popular 'tax-free' savings vehicles.

Individuals can invest in any combination of cash or stocks and shares up to the overall annual subscription limit of £15,240 in 2016/17. However, a saver may only pay into a maximum of one Cash ISA and one Stocks and Shares ISA each year. You have until 5 April 2017 to make your 2016/17 ISA investment.

Meanwhile, a tax-free Junior ISA (JISA) is available to all UK resident children under the age of 18 as a Cash or Stocks and Shares product or both. Total annual contributions are capped at £4,080. Funds placed in a JISA will be owned by the child but investments will be locked in until the child reaches adulthood. If a child has a Child Trust Fund account this can now be transferred into a JISA.

The new Help to Buy ISA

Alternatively, those wishing to save for their first home may benefit from the new Help to Buy ISA. The account enables first time buyers to save monthly deposits of up to £200, with an opportunity to deposit an additional £1,000 when the account is first opened.

The Government will then provide a 25% bonus on the total amount saved, including interest, capped at a maximum of £3,000 on savings of £12,000, which is tax-free. The bonus can only be put towards a first home located in the UK with a purchase value of £250,000 or less or up to £450,000 in London. An individual may only subscribe to one Cash ISA per year, so an account holder cannot subscribe to a Help to Buy ISA and a Cash ISA.

The even newer Lifetime ISA

A Lifetime ISA will be introduced on 6 April 2017 for those under the age of 40. Contributions of up to £4,000 per year will be met with a 25% bonus provided by the Government until the account holder reaches the age of 50.

However, if withdrawals are made prior to the account holder's 60th birthday, a 25% penalty will apply to the withdrawal, which effectively takes away the bonus accrued unless the withdrawal is to fund the purchase of a first home. Therefore, unless used for a first home deposit, the Lifetime ISA is more similar to a pension savings vehicle.

It is unlikely that there will be many Lifetime ISA products available on 6 April whilst providers come to terms with the new rules, so individuals who are below the age of 40 may wish to defer making their first investment until the market has matured.

Planning for your retirement

The pension tax relief system continues to change, with further reductions in the reliefs available for both those with large pension pots and high levels of income.

- **Large Pension Pots**

  For those lucky enough to have large pension pots, the most urgent consideration is the reductions of the Lifetime Allowance from 6 April 2014 to £1.25 million and from 6 April 2016 to £1 million. The Lifetime Allowance is the maximum you are allowed to have in pension savings on retirement without punitive tax rates applying to the excess.

  In respect of the 2014 reduction, you can apply for individual protection by 5 April 2017 if your pension pot exceeded £1.25 million at 5 April 2014 (subject to a maximum of £1.5 million). For the April 2016 changes, similar provisions will apply, and are expected to allow individuals to apply for protection if their pension pot is valued between £1 million and £1.25 million at 6 April 2016.

- **General rules on pension contributions**

  For pension contributions to be applied against 2016/17 income, they must be paid by 5 April 2017. Tax relief is available on annual contributions limited to the greater of £3,600 (gross) or the amount of the UK relevant earnings, but subject also to the annual allowance.

  Where pension savings in any of the last three years' pension input periods (PIPs) were less than the annual allowance, the 'unused relief' is brought forward, but you must have been a pension scheme member during a tax year to bring forward unused relief from that year. The unused relief for any particular year must be used within three years. For example:

Tax year	Gross pension saving	Annual Allowance	Carry forward
2013/14	20,000	50,000	30,000
2014/15	30,000	40,000	10,000
2015/16	10,000	40,000	30,000

With the £40,000 cap for 2016/17, this client can make tax-efficient contributions up to £110,000 gross.

From April 2016 the Government introduced a taper to the annual allowance for those with adjusted annual incomes (including their own and their employer's pension contributions) over £150,000. For every £2 of adjusted annual income over £150,000, an individual's annual allowance will be reduced by £1, down to a minimum of £10,000.

Your scheme managers can provide pension forecasts to help you estimate whether you are saving enough and, if not, what additional savings you might have to make in order to generate the income you will need in retirement. When you consider your retirement income, don't forget to also assess your expenditure – many people underestimate the amount they will need to live comfortably when they stop working.

Those who fully fund their pensions may have entered into salary sacrifice arrangements under which the employer funds pension payments for other family members. These payments are now taxable on the employee.

The rules are complicated, but we can calculate your personal pension savings cap, as well as advising on all aspects of financial planning, including a discussion of your spending needs, post-retirement.

“When you consider your retirement income, don't forget to also assess your expenditure – many people underestimate the amount they will need to live comfortably when they stop working.”

Our expert team can help you ensure that you are able to make the most of the tax-saving opportunities available to you and your business before 5th April.

To find out more, please contact us.

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