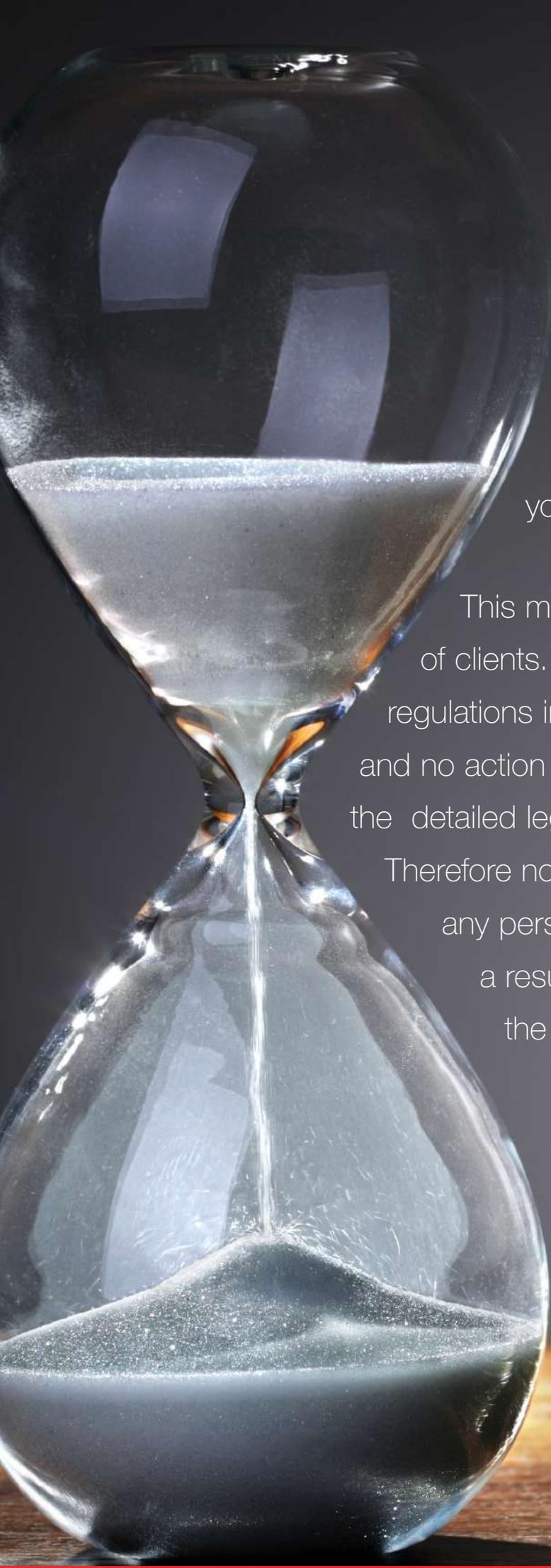


# Private client year-end tax planning





With the 2017/18 tax year drawing to an end, here are some ideas to ensure that you are minimising your tax liabilities by maximising your reliefs and exemptions.

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# The 2017 Autumn Budget

The rise in the income tax threshold to £11,850 will be implemented from 5 April 2018 while the national living wage is to increase to £7.83 an hour, from the same date.

Other measures announced by the Chancellor in his Autumn Budget include:

- The fuel duty rise has been cancelled for the eighth year in succession
- The VAT registration threshold will remain at £85,000 for the next two years from 1 April 2018
- From 6 April 2018, the diesel supplement will increase from 3% to 4% for benefit in kind purposes
- The Government has confirmed that people who charge electric vehicles at work will not face a benefit-in-kind charge
- The EIS investment limits for knowledge intensive companies will be doubled to £2m from 6 April 2018

# Income tax

Are you and your spouse using your personal allowance and lower rate bands in full? Transfers of assets between spouses and civil partners are tax free and can help to reduce the overall tax burden by making the most of the available allowances and bands.

## High income child benefit charge

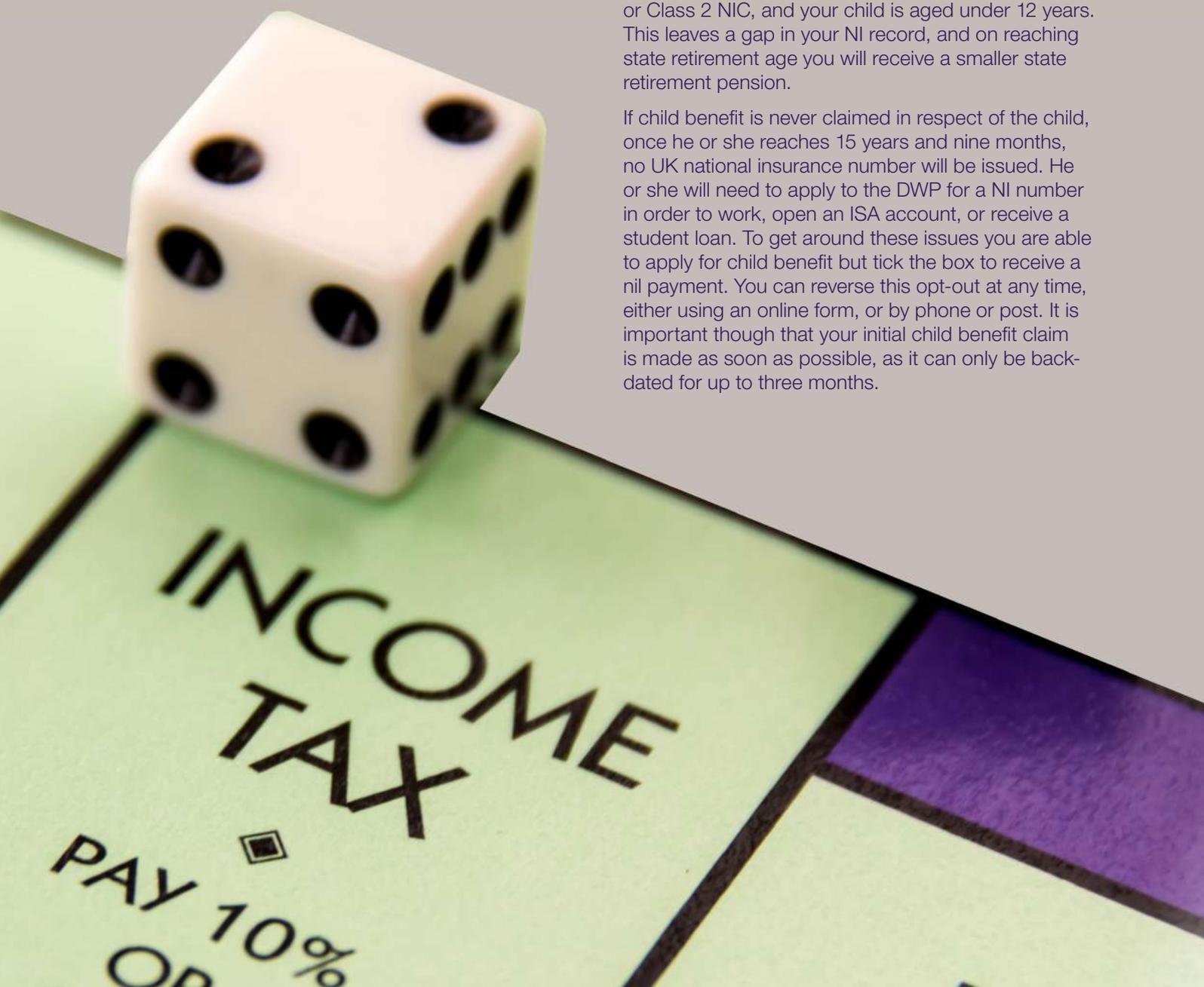
Are you affected by the withdrawal of child benefit where income exceeds £50,000? Can you mitigate the impact by making increased pension contributions or donating via gift aid?

The high income child benefit charge (HICBC) applies where the benefit claimant, or their partner, has annual adjusted net income of £50,000 or more. The full amount of child benefit is clawed-back if the higher earner's annual adjusted net income is £60,000 or more.

Many people have decided it is simpler not to claim child benefit at all, rather than getting involved with the imposition of a tax charge on the higher earner however, this approach can cause some future problems for both parent and child.

If you are a non-working parent who doesn't claim child benefit, you won't receive national insurance credits for the period during which you don't pay either Class 1 or Class 2 NIC, and your child is aged under 12 years. This leaves a gap in your NI record, and on reaching state retirement age you will receive a smaller state retirement pension.

If child benefit is never claimed in respect of the child, once he or she reaches 15 years and nine months, no UK national insurance number will be issued. He or she will need to apply to the DWP for a NI number in order to work, open an ISA account, or receive a student loan. To get around these issues you are able to apply for child benefit but tick the box to receive a nil payment. You can reverse this opt-out at any time, either using an online form, or by phone or post. It is important though that your initial child benefit claim is made as soon as possible, as it can only be back-dated for up to three months.



## Key thresholds, bands and allowances

If you pay your tax via pay as your earn (PAYE) don't forget to check your PAYE coding notice to ensure that you are paying the correct amount of tax and do not end up with a large under or overpayment at the end of the next tax year.

Is your income around any of the key thresholds or bands? These are £45,000 (higher rate tax), £50,000 - £60,000 (child benefit withdrawal), £100,000 - £123,000 (withdrawal of personal allowances) or £150,000 (additional rate tax). If so, consider the timing of income and tax deductible expenditure where possible. Don't forget, the transferable marriage allowance of £1,150 is also available to couples where neither one is a higher or additional rate taxpayer.

Consider organising your income producing assets to use the personal savings allowance (PSA) which is available to basic and higher rate taxpayers but not to additional rate taxpayers. The allowance is £1,000 per year for basic rate taxpayers and £500 per year for higher rate taxpayers. Therefore, it is important to ensure that taxable income does not fall into the next tax band as the £1,000 allowance could be reduced to £500 or the £500 allowance to nil if income falls into the next tax bracket by just £1.

The PSA works like a 'nil rate band' taxing the income at 0%. It is important to note that this will still utilise part of the basic or higher rate tax band and will not reduce income for the purposes of calculating the personal allowance withdrawal and for purposes of the HICBC claw back. Savings income above the allowance is taxable at the basic or higher rate as appropriate.

In addition, the 0% 'starting rate band' remains at £5,000 for the 2017/18 and 2018/19 tax years. This is available in addition to the PSA. The £5,000 allowance is reduced by non-savings income in excess of your personal allowance. Therefore, for the 2017/18 tax year, if your non-savings income is in excess of £16,500 (11,500 + 5,000) the allowance will be tapered down to nil.

You could also consider taking dividends from your business to use the dividend allowance of £5,000 per year that is available to all taxpayers. Consider making use of this allowance for all shareholders before the end of the 2017/18 tax year, bearing in mind that the allowance will be reduced to £2,000 from April 2018. The rates of tax on dividend income above the allowance are 7.5% for dividend income falling within

the basic rate band, 32.5% for dividend income falling within the higher rate band, and 38.1% for dividend income falling within the additional rate band. A zero rate of income tax applies to dividends covered by the allowance.

If your income is likely to be significantly less in 2017/18 than it was in 2016/17, you can apply to reduce your payments on account (POA). This can help with cash flow, but note that if your POAs are reduced by too much, interest may accrue.

## Property income

Since 6 April 2017 landlords have had the choice to use fixed rates per business mile to calculate allowable deductions for motoring expenses which can be used instead of deducting actual running costs and claiming capital allowances. We can check whether a fixed rate expense claim is likely to be beneficial for you, should you wish.

Also from 6 April 2017, there is a restriction to the amount of finance costs (i.e. mortgage interest) that can be deducted from rental income on residential property, although this excludes furnished holiday lets (FHLs). This restriction is being phased in from 6 April 2017. Relief for 2017/18 will be restricted to 75% of finance costs, with the remaining 25% being available as a basic rate tax reducer. For 2018/19 the relevant proportions will be 50:50. By 2020/21 all finance costs incurred by landlords will be given as a basic rate tax reducer. This can have the effect of pushing a basic rate tax payer into higher rates, although careful tax planning may prevent this. Although not appropriate for all, some taxpayers may find it is advantageous to run their property business through a limited company, which allows the continued deduction of finance costs along with other potential benefits.

If your property is intended to be used a FHL, and therefore excluded from the interest restriction then it is important to check that the relevant conditions have been met to ensure your property qualifies as intended.

## Charity donations

Ensure you record all your charity donations: your basic and higher rate tax bands are extended by the gross donation, which increases the amount of your income taxed at the lower rates. Once a valid gift aid declaration is made, the charity can claim an additional 25% from HMRC however, if you have not paid enough tax during the year to cover the charity's claim, you will need to pay the shortfall back to HMRC.

# Capital gains tax

Have you utilised your annual exemption of £11,300 for 2017/18 (increasing to £11,700 for 2018/19)? It can't be carried forward but planning such as spousal transfers can help ensure that annual exemptions and basic rate bands are utilised to minimise the overall capital gains tax liability.

Don't ignore any assets (perhaps shares) that have become worthless, as it is possible to make a 'negligible value' claim creating a loss which can be set off against other capital gains or carried forward and used against future capital gains. In certain circumstances the loss can be claimed against your income.

Consider the timing of your disposals carefully, especially if your income will change significantly between tax years. This is because capital gains are taxed as the top slice of your income and charged at either 10% for gains within the basic rate or 20% for gains within the higher rate. Gains on residential properties that do not qualify for principal private residence (PPR) relief and gains on carried interests are still chargeable at 18% or 28%. The timing of the disposal will also have an effect on when the tax is payable - can you defer a sale until after 5 April 2018 to postpone the date of payment of the tax for a further 12 months?

Principal private residence relief can exempt all or part of a gain which arises on a property that has been used as your only or main residence. If you have more than one main residence then you may be able to nominate one to qualify for the relief. Therefore, if you have acquired a second home within the last two years ensure you make a main residence election, it can be varied at a later date but if you miss the deadline (two years after the point at which you acquire more than one residence) a late election is unlikely to be accepted by HMRC and may result in higher CGT liability.

Non-resident CGT (NRCGT) applies when a non UK resident disposes of a UK residential property. A NRCGT return - and any tax payable - is due 30 days from completion. Finance Bill 2019 will extend NRCGT to all disposals of UK property (not just residential) for all non-resident companies and individuals.

In 2016, the Government announced it intended to introduce a 30 day payment window for capital gains on all residential property disposals (i.e. not just for non-residents) from April 2019. This has now been deferred until April 2020.

If you are likely to make significant gains this year speak to your usual PKF Francis Clark contact to discuss whether there are any ways to mitigate the CGT due.

A close-up, low-angle shot of a speedometer. The needle is positioned at approximately 100 on the scale. The text 'TIME TO SELL!' is overlaid on the image. 'TIME' and 'TO' are in white, while 'SELL!' is in a bright green color. The speedometer's scale consists of white lines on a dark background, with the needle itself being a thick white bar.

TIME  
TO  
SELL!

# Investments

## Individual savings accounts

Ensure you use your ISA allowance this year. The allowance remains at £20,000 for 2017/18 and 2018/19. Up to £4,128 this year (£4,260 for 2018/19) can be invested in a junior ISA for children who do not have a child trust fund. Children are able to have one cash junior ISA and one stocks and shares junior ISA at any time. Anyone can invest in a junior ISA (not just parents) on behalf of a child.

Help to buy ISAs are still available, but only until 30 November 2019. The Government will provide a top-up of 25% of savings up to a maximum monthly savings amount of £200, and the total bonus available will be capped at £3,000 on £12,000 of savings. It is possible to deposit an additional £1,000 when the account is first opened and there is no limit to how long the account may remain open. The interest on the account and the bonus will be tax-free. The bonus will be paid at the time of completion of the purchase of the property provided the property is worth a maximum of £450,000 in London and £250,000 elsewhere in the UK. Accounts are limited to one per person rather than one per property.

The Government lifetime ISA (LISA) was made available from 6 April 2017. Individuals aged between 18 and 40 can save

up to £4,000 per tax year into a LISA and receive a 25% bonus from the Government at the end of the year. Contributions can continue to be made with the bonus paid, up to the age of 50. Funds, including the Government bonus, can be used to buy a first home up to the value of £450,000 at any time from 12 months after opening the account, and can be withdrawn from age 60 for use in retirement. If you have a help to buy ISA, you can transfer those savings into a LISA in 2017, or continue saving into both, or open a help to buy ISA after opening a LISA, however, you will only be able to use the bonus from one of the ISAs to buy a house.

## Pension contributions

The maximum annual tax relief available for contributions into a pension scheme is the lower of £40,000 (the annual allowance) or 100% of relevant earnings. You can invest up to £2,880 net (£3,600 gross) in a pension even if you don't have any relevant earnings. This can be a great way of parents saving for their children. Pension contributions from your employer (or personal company) are a tax free benefit and a deductible expense. If done by way of salary sacrifice this can help save on income tax and NIC which would have been due if the sum was paid as salary.

Unused annual allowances from the previous three tax years can

be brought forward to top up your allowance for the current tax year. You must have been a member of a registered pension scheme in those tax previous tax years in order to claim any unused allowances. Remember, the annual allowance drops to £4,000 per year in the first full tax year after you take any money from your pension pot.

For those earning over £150,000 (or certain employees earning over £110,000), the annual allowance is scaled back by £1 for every £2 of income over the limit, down to a reduced minimum allowance of £10,000. You should take advice to ensure that you have maximised the contributions you can make, without triggering any clawback charges or exceeding the £1m lifetime allowance (£1,030,000 from 6 April 2018).

## Tax efficient investments

Investing in EIS shares gives you income tax relief at 30% up to £1m invested and any gain on sale of the EIS shares is exempt from CGT provided the EIS shares are held for a least three years and the qualifying conditions continue to be met. A CGT deferral is also available which can defer the gain on the disposal of any asset however, any gains deferred will usually come back into charge when the EIS shares are sold. Your investment will also be free of inheritance tax (IHT) after two years. The investment limit rises to £2m for investments in

knowledge intensive companies from 6 April 2018.

Investing in VCTs is similar. Income tax relief of 30% is available on investments up to £200,000 if the shares are owned for at least five years. Any gain made on the sale of the VCT shares (up to a maximum of £200,000) is exempt from CGT regardless of how long the shares have been owned. In addition, dividend income generated from the first £200,000 of investment is tax free. These investments can be useful as an alternative to investing in pension funds where the maximum has been reached, however they do tend to be higher risk investments and are therefore only suitable for experienced investors.

Investments in SEIS shares gives a 50% income tax reduction and provide a CGT exemption for investments of up to £100,000 a year when the SEIS shares are held for three years. You can also carry back contributions to the 2016/17 tax year, to mitigate tax at the 18% and 28% rates if necessary. The SEIS shares themselves are also exempt from CGT provided they are held for at least three years.

Should you require further information on any of the investments discussed, please speak to your usual PKF Francis Clark Financial Planning contact or your financial adviser.



A close-up photograph of a person's hands holding a white paper cutout of a house. The hands are positioned as if presenting the house cutout. The background is a soft, out-of-focus grey. The right side of the image is overlaid with a dark red vertical bar containing text.

# Inheritance tax

It is extremely important to have a current, valid and up-to-date Will. Marriage, divorce and material changes in assets held should all prompt a consideration of your Will, to ensure it continues to meet your wishes for your family's future.

Some useful IHT exemptions are set out below -

- The annual exemption is £3,000 per donor per year
- Gifts between spouses are exempt transfers (though the exemption is limited to £325,000 when the donee is non-domiciled)
- Small gifts of up to £250 per tax year per recipient are exempt
- Gifts of surplus income on a regular basis are exempt if certain conditions are met
- Wedding gifts are exempt up to certain limits
- Gifts to charity are exempt
- Gifts for family maintenance may be exempt
- If 10% of your chargeable estate is left to charity, your IHT rate can be reduced to 36%

A gift to an individual is exempt from IHT if the donor survives for seven years from the date of the gift. Therefore, consider making gifts while asset values are low, although there may be CGT implications the CGT payable on a gain now is likely to be considerably less than the IHT payable on the future value of the asset.

IHT efficient investments or financial products are available which can substantially reduce your IHT exposure. Business assets qualify for 100% relief from IHT, normally after a two year ownership period. Let agricultural land and buildings (including farmhouses and cottages) can also have favoured status for IHT.

The residence nil rate band (RNRB) which has been phased in from 6 April 2017 is adding further complexity to the IHT rules. From April 2020 the RNRB will be £175,000 meaning that for a married couple it is worth £140,000 in terms of reducing the IHT payable. The potential relief is therefore too valuable to be ignored. Seek advice regarding whether you are eligible for this and if not what can be done to enable you to qualify. Your Will may need to be reviewed to make sure your executors can claim the relief.

Setting up lifetime trusts can also still be a useful IHT planning tool for reducing your estate whilst maintaining control over assets.



# Business owners

## Capital / chargeable gains

Entrepreneurs' relief is extremely valuable so it is worth making sure you qualify. This gives a 10% tax rate on capital gains up to £10m.

Investors' relief will also be available for gains accruing on the disposal of ordinary shares in an unlisted trading company which are held for a period of at least three years starting on or after 6 April 2016. The shares must be newly issued to the claimant and have been acquired for new consideration on or after 17 March 2016. Generally neither the investor nor a person connected to them can be an employee or officer of the company or a connected company, though some exceptions apply. The relief operates by charging relevant gains to CGT at 10% and is subject to a lifetime limit of £10m. Relief can be claimed by trustees where an eligible beneficiary has an interest in settled property which includes the qualifying shares.

Disincorporation relief will not be extended beyond its 31 March 2018 expiry date, therefore the CGT advantages in relation to this will not be available beyond this date.

## Capital allowances

The annual investment allowance (AIA) remains at £200,000 for expenditure on qualifying plant and machinery. Make sure you time your capital investment so you are able to make maximum use of the relief.

Cars do not attract AIA but are subject to an annual writing down allowance at 18% or, for cars with CO<sub>2</sub> emissions in excess of 130g/km, at 8%. Note that this threshold will be reduced to 110g/km from April 2018.

The 100% first year allowance (FYA) is available (in addition to AIA) for new low emissions vehicles with CO<sub>2</sub> emissions of 75g/km or less, although this is reducing to 50g/km from April 2018. The FYA is also available on qualifying energy saving and water-efficient equipment.

## Employment incentives

EMI options are a very attractive way of providing incentives to your employees, especially now that the Government has abolished the previously favorable 'employee shareholder status' for all arrangements entered into on or after 1 December 2016.

# Stamp duty land tax

## Additional 3% rate

Since 1 April 2016, an additional 3% charge applies on top of the normal stamp duty land tax (SDLT) rates on purchases of additional residential properties of £40,000 or more. The additional rate will apply if, at the date of the proposed acquisition, the individual owns a major interest in another dwelling with a market value of £40,000 or more.

The additional rates won't apply if the purchased dwelling replaces the purchaser's only or main residence, provided certain conditions are met.

The purchase of two or more dwellings will also trigger the additional 3% rate however, there is an exception for additional dwellings that are 'subsidiary' to the main dwelling. This exception was introduced to prevent acquisitions of residential properties with 'granny flats' or annexes being caught by the additional rates.

Watch out for joint purchases! It only takes one purchaser to be subject to the additional 3% rate to bring the whole transaction into the scope of these rules. In other words the 3% additional rate will apply to the total purchase cost for all owners if any one of them would be liable to the 3% additional rate. It's also important to bear in mind that spouses or civil partners are treated as joint purchasers.

The new rules are complex and should be considered if you are planning to purchase residential property as careful planning can result in significant SDLT savings.

## Relief for first time buyers

At the 2017 autumn Budget, the Chancellor announced a SDLT relief for first-time buyers which applies to purchases of wholly residential properties from 22 November 2017. There will be no SDLT on the first £300,000 of the purchase price where conditions are met. Broadly, the relief applies to first time buyers who intend to occupy the dwelling as their only or main residence and where consideration does not exceed £500,000. All purchasers need to meet the conditions otherwise the relief will not apply to any part of the transaction.

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