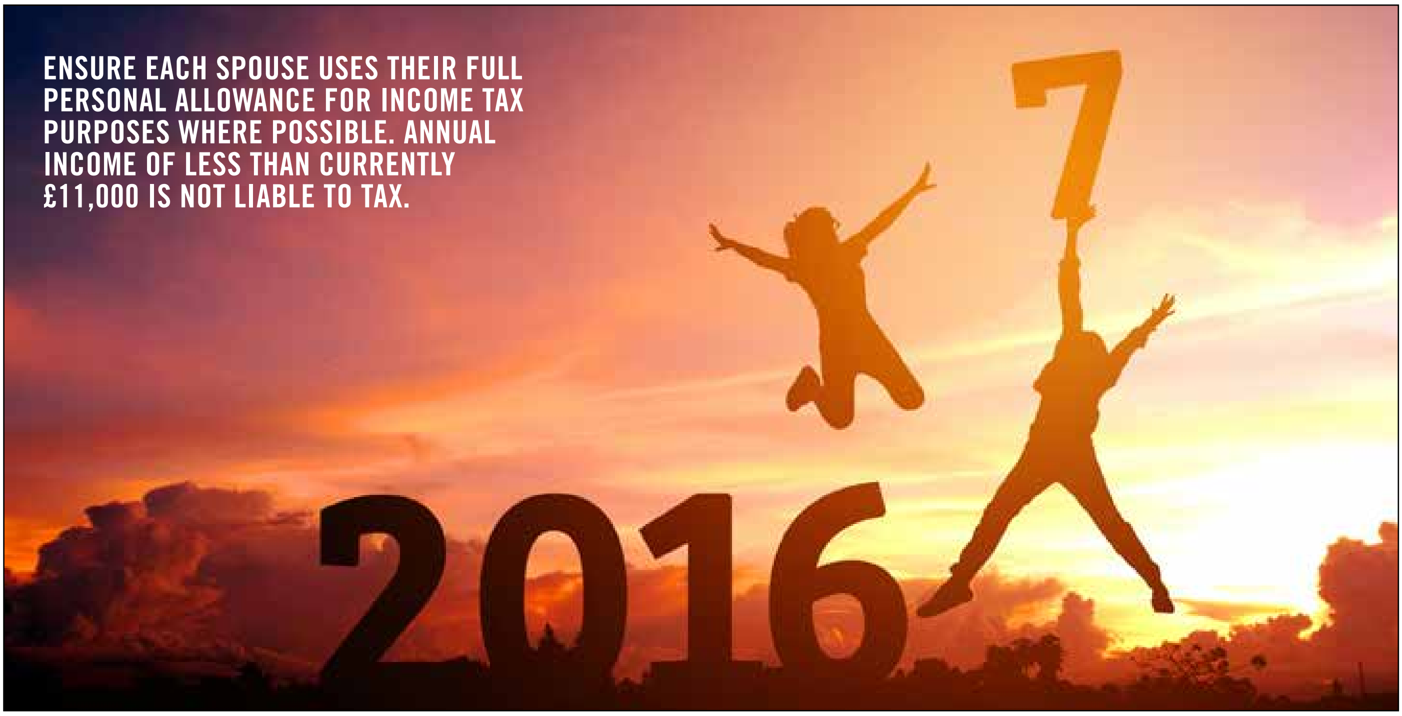
Financial Landscape

Winter Issue 2017 Carpenter Rees Ltd

2016/17 Year End Planning

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



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 need to consider if applicable to your particular situation.

PERSONAL ALLOWANCE

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.

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.

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.

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. It is also 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 well 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.

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 £1m. If you exceed the Lifetime Allowance, you could be facing a 55% tax bill. 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 (EIS), Seed Enterprise Investment Schemes (SEIS) and Venture Capital Trusts (VCT) should be reviewed. 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.

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.

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.

Lifetime Individual Savings Accounts

Saving flexibly for a first home and retirement

Lifetime Individual Savings Accounts are being launched by the Government to help 18–40-year-olds to save and invest flexibly for the long term. The aim is that people will not have to choose between saving for their first home and retirement.

They can use some or all of the money to buy their first home or keep it until they're 60. Similar to normal Individual Savings Accounts, they won't have to pay any Capital Gains Tax or further Income Tax on profits taken.

GOVERNMENT BONUS

Individuals can save and invest up to £4,000 each year and receive a government bonus of 25% – that's a bonus of up to £1,000 a year, and they can use some or all of the money to buy their first home or keep it until they're 60 – it's up to them.

Lifetime ISA accounts will be available from 6 April 2017 and can be opened between the ages of 18 and 40, and any savings put in before their 50th birthday will receive an added 25% bonus from the Government.

There is no maximum monthly contribution – someone can save as little or as much as they want each month (up to £4,000 a year), with the total amount they can save each year into all Individual Savings Accounts being increased from the current £15,240 to £20,000 from 6 April 2017

SAVING FOR A FIRST HOME

Any time from 12 months after opening a Lifetime ISA, they will be able to use their savings and bonus towards a deposit on their first home worth up to £450,000 in the UK. Accounts are limited to one per person (rather than one per home), so two first-time buyers can both receive a bonus when buying together.

If they have a Help to Buy Individual Savings Account, they can transfer those savings into a Lifetime ISA in 2017 or continue saving in both, but they will only be able to use the bonus from one of the accounts to buy a house.

SAVING FOR RETIREMENT

After their 60th birthday, they can take out all the savings tax-efficiently. If they withdraw the money before they turn 60, they will lose the government bonus (and any interest or growth on this). They will also have to pay a 5% charge. ■

QUALITY PROFESSIONAL FINANCIAL ADVICE

Creating and maintaining the right investment strategy plays a vital role in securing your financial future. We can provide the quality professional financial advice, comprehensive investment solutions and ongoing service to help you achieve your financial goals. To find out more, please contact us.

Lasting Power of Attorney

Numbers registering more than trebles in five years

More than two million Lasting Power of Attorney (LPA) registrations will have been filed by the end of 2016, with the number of appointments more than trebling between 2010 and 2015.

The figures from the Office of the Public Guardian (OPG) were disclosed through a Freedom of Information request by Old Mutual Wealth.

DELEGATING POWER

An LPA is used to delegate power to someone to manage an individual's personal and/or welfare affairs in the event that they become mentally incapacitated.

There are two types: Property & Financial Lasting Power of Attorneys (P&F LPA) and Health & Welfare Lasting Power of Attorney (H&W LPA). Registering an LPA covering either or both of these areas means that someone gives a trusted friend, family member, solicitor or other individual the responsibility for managing their affairs if they become mentally incapacitated.

OWN DECISIONS

Not having an LPA in place can cause problems for both individuals and their families if they become unable to make their own decisions. LPAs were introduced in 2007 following concerns around potential 'abuse' of the existing Enduring Powers of Attorney process.

The average age of those registering a LPA (known as 'donors') has fallen from 79 in 2008 to 75 in 2015. It suggests that as awareness of mental health conditions increases, people are become increasingly inclined to prepare earlier in life.

LIFE PLANNING

Building a financial plan does not have to be only about investing for the future. The most detailed financial planning goes hand in hand with your life planning, and appointing an attorney through a Lasting Power of Attorney is a way to ensure management of your personal affairs is factored into your financial preparations for retirement and later life.

The data shows that hundreds of thousands of people every year are now putting in place a Power of Attorney, delegating responsibility for their health or financial decisions to a trusted friend or relative in case they become mentally incapacitated in later life. ■

CERTAINTY OVER THE FUTURE MANAGEMENT OF YOUR FINANCIAL AFFAIRS

Talking to your parents or other family members about this is a delicate issue. And it is all too easy to take it for granted that you will always be in a position to manage your own affairs. But mental incapacity is something that affects millions of people, and by planning ahead it is possible to confront the matter head-on, giving both you and your family some certainty over the future management of your financial affairs, welfare decisions, or both.