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2013/14 Year End Strategies

Inside this guide...

Despite ongoing attempts to simplify the UK tax system, the regime remains notoriously complex. The rules are often cumbersome and subject to frequent changes, with some applying immediately while others may be deferred for one, two or more years.

We can help you to navigate this minefield, and in the face of personal tax rates of up to an effective 60%, we can offer professional tax and financial planning strategies designed to help you maximise your wealth.

We can help our clients to:

- keep taxes to a legal minimum
- utilise tax-efficient savings and investments
- save for a comfortable retirement
- make the most of tax reliefs and tax breaks
- ensure earnings and profit extraction are as tax-efficient as possible
- minimise the inheritance tax burden.

By talking to you and understanding your business and your future plans, we can advise you on how to manage cash flow and plan ahead, including accounting for large payments such as tax bills. We can also help you identify the strengths and weaknesses in your business, to get you and your business onto a firm footing for the future.

It's all in the timing

Timing is crucial if you want to maximise tax reliefs or minimise the tax bill on a transaction or investment. It can also determine when any reliefs impact on your tax payments or your tax code.

This guide explores some of the key strategies to consider ahead of the tax year end. However, please do not wait until 5 April! Sending us your accounting and personal records in good time means we can discuss planning opportunities and help you to manage cash flow by giving you early warning of any tax payments due.

And of course, good timing can help to safeguard you from the system of penalties and interest levied by HM Revenue & Customs.

Let us be your guides – talk to us for practical advice tailored to your needs.

Note: this guide refers to 'spouses'; in most cases this applies also to civil partners.

The top rate of income tax this year is 45% - *or is it?*

Anyone whose income exceeds £100,000 is already paying tax at 40% – this begins when taxable income exceeds £32,010 – but your personal allowances are also clawed back by £1 for every £2 by which your adjusted net income exceeds £100,000. All in all, the 40% income tax plus the loss of £1 of allowances for every £2 of income equates to an effective 60% rate on up to £18,880 of your income!

If your income for 2013/14 is likely to fall within the £100,000-£118,880 band, talk to us about your options – you might, for example, delay income into the next tax year or increase your payments into a pension.

If you want to avoid the 60% 'hidden top rate' you will usually need to act before the end of the tax year on 5 April.

There is only one 'net adjusted income' reducer which can be arranged after the end of the year – a Gift Aid carry-back. Subject to making a qualifying donation to charity and the associated claim no later than when you file your 2014 Tax Return, a donation which would otherwise fall into 2014/15 can be claimed for 2013/14.

Certain rules apply, so please talk to us first.

Retirement planning: let the taxman help

Retirement is a time that most people look forward to, and with a solid financial plan in place, you can too.

While many individuals have looked to parallel investments for retirement in the current climate – such as gold, second homes or buy-to-let – it is important to take advantage of tax reliefs and (tax-deductible) employer contributions to build a fund for your retirement, whatever retirement age you may have in mind. Personal contributions to pension schemes attract tax relief worth up to 60%, making them an ideal tax-free investment regime.

You can check when you will become entitled to the State Pension and get an estimate of your entitlement by visiting **www.gov.uk/calculate-state-pension**.

Your scheme managers can provide pension forecasts to help you judge 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.

For pension contributions to be applied against 2013/14 income they must be paid by 5 April 2014. Tax relief is available on annual contributions limited to the greater of £3,600 (gross) or the amount of the UK relevant earnings, but also subject to the annual allowance.

The basic annual allowance is a straight £50,000 cap on pension savings. However, it is possible to adjust your annual allowance to reflect savings shortfalls in the last three tax years, against a notional cap of £50,000. This is largely to reflect the simple fact that for many self-employed people, earnings and available cash vary from one year to another. For example:

Tax year	Gross pension saving (£)	Cap (£)	Carry forward to 2013/14 (£)
2010/11	20,000	50,000 (notional)	30,000
2011/12	30,000	50,000	20,000
2012/13	10,000	50,000	40,000

With the £50,000 cap for 2013/14, this client can make tax-efficient contributions of up to £140,000 gross (subject to them having enough relevant earnings in 2013/14).

The rules are complex, so please talk to us for advice. Also, be aware that from April 2014 the annual allowance is set to be reduced from £50,000 to £40,000, while the overall tax-advantaged pension savings lifetime allowance will fall from £1.5 million to £1.25 million.

Driving down the cost of business motoring

The company car remains an important part of the remuneration package for many employees – and an essential business tool for many employers.

However, tax and national insurance costs could mean that your company car may not be the most tax-efficient option for either employer or employee. The car benefit and car fuel benefit (where fuel for private use is provided with the car), on which you pay income tax at up to 45% (or even 60%) and your employer pays 13.8% Class 1A national insurance contributions (NICs), are calculated at up to 35% of the list price (car) and the same percentage on a notional £21,100 (fuel). The maximum taxable percentage is set to rise to 37% in April 2015.

For some, an employer provided 'van' may be a viable alternative to a company car: the tax charge is £1,200 plus up to £226 for fuel for those paying tax at 40% (earning approximately £41,450 to £150,000 in 2013/14).

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 in their own vehicles, at the statutory mileage rates. This option is usually more likely to pay off when business mileage is high.

We can help you decide on the best course of action.

Getting the most from your ISA

Ideal for saving small, regular amounts, Individual Savings Accounts (ISAs) are available from banks, building societies and a variety of other providers and, despite continuing low interest rates, are still a popular 'tax-free' saving option. For all adult savers, the maximum investment in 2013/14 is £11,520. You have until 5 April 2014 to make your 2013/14 ISA investment.

ISA investment limits	Overall	Cash
Adults	£11,520	£5,760
Age 16-17	-	£5,760

In addition, Junior ISAs, for those aged under 18 who were not entitled to a Child Trust Fund account, allow investment of up to £3,720 in 2013/14. Withdrawals are not normally permitted until the child reaches the age of 18, at which point the Junior ISA will become a normal adult ISA.

It is worth shopping around online for the best deals, particularly with interest rates for many ISAs currently being relatively low.

Appreciate your capital allowances

Depreciation is generally not tax-deductible. Instead, capital allowances allow 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 or helping smaller businesses.

For a temporary two-year period from 1 January 2013, the majority of businesses are able to claim a 100% Annual Investment Allowance (AIA) – in effect, a year-one write off – on the first £250,000 of expenditure on most types of plant and machinery (but not cars, to which different rules apply). Note that where a chargeable period straddles the date of the change – 1 January 2013 – the business will need to calculate its AIA limit for the chargeable period in two parts, so please seek our assistance.

'Greener' investment is encouraged through specific 100% allowances available for some investments, including energy-saving equipment and low CO_2 emissions (up to 95 g/km) 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 130 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 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.

Please contact us for more information on how you may be able to maximise tax relief and optimise the timing for your business.

Reducing the final tax bill

With the inheritance tax (IHT) threshold frozen at £325,000 until 2018, more people than ever may have to face up to an IHT charge on their estate.

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 be liable. Early planning is therefore essential in order to minimise your liability to IHT. Here we outline some key IHT planning strategies.

Certain gifts attract reliefs – in some cases up to 100%

There are a number of IHT reliefs available, perhaps most importantly relief on business and agricultural property, which effectively takes most of such property outside 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.

Some transfers are exempt

Transfers of assets between two 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.

Simon and Philip were civil partners. Simon died in May 2008, leaving £50,000 to his more distant family but the bulk of his estate to Philip. If Philip dies in 2015/16 his estate will qualify for a nil-rate band of:

Nil-rate band on Simon's death	£312,000
Used on Simon's death	£50,000
Unused band	£262,000
Unused percentage	83.97%
Nil-rate band at the time of Philip's death	£325,000
Entitlement	183.97%
Nil-rate band for Philip's estate	£597,902

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
- normal expenditure out of income
- gifts to charities.

Lifetime gifts can reduce the IHT bill

Introducing a programme of lifetime gifts can also significantly reduce the IHT liability on your estate. This has the advantage of allowing you to witness the benefits your gifts 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 discount can also apply where lifetime gifts were made between three and seven years before death (note that the discount applies to the tax on the gift rather than the gift itself, so, as above, these 'old' gifts can significantly increase the final bill unless we have been able to cover them for you with an exemption or relief).

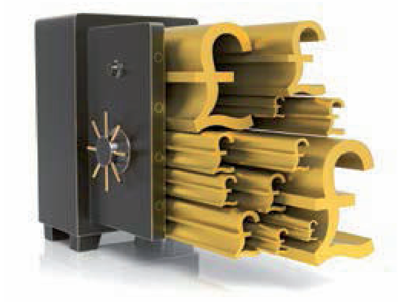
Trusts can make a difference

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 meet your planning needs.

Where there's a Will there's a way

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.

Lifetime gifts and estate planning can reduce the liability to IHT and protect your business and your family wealth, while a well-drafted Will ensures that you leave clear and complete instructions as to how your estate is to be distributed on your death.



Extracting profit – and saving on tax

While there are numerous ways of extracting profit from your company, each option has its own implications in terms of the amount of tax you pay, as well as for the company itself. Here are some key planning strategies.

Corporation tax is the tax due on a company's profits, while personal income tax generally applies to what is drawn out of the company by means of a salary, bonus or other form of remuneration.

Dividend versus salary/ bonus

The question of whether it is better to take a salary/bonus or a dividend requires careful consideration. 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 is generally tax deductible to the company, whereas dividends are not. 5 April 2014 is the last date for paying a 2013/14 dividend, and any higher or additional rate tax on that dividend will not be due until 31 January 2015.

Defer income

The top income tax rate is 45% and the equivalent dividend tax rate is now 37.5%, so thought needs to be given to the timing of bonuses and/or dividends if taxable income is likely to exceed £150,000, especially if income in 2014/15 will be less.

More ways to extract profit

You may also want to consider alternative means of extracting profit, which might include the following:

Capitalisation

For those expecting to liquidate their company in the next few years, profits might be left in the company to be eventually 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 potentially jeopardise Entrepreneurs' Relief or IHT Business Property Relief.

Incorporation

As the above points suggest, incorporation may give more scope for saving or deferring tax than operating as a self-employed person or partner.

Of course, incorporation may not suit all circumstances, and the 'IR35' rules specifically counter the use of 'personal service companies' to reduce tax, but we will be pleased to discuss 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 per mile for the first 10,000 miles and 25p per mile above this. If you use your motorbike the rate is 24p per mile, and you can even claim 20p per mile for using your bicycle!

Childcare

Parents of young children may be entitled to tax and NIC-free childcare vouchers of up to £55 per 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 deductible to the employer.

Maximum vouchers per parent: For people who joined the scheme before 6 April 2011, the limit is £55 per week. For those joining now, or who joined on or after 6 April 2011, the limit is:

- 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 and gains – please contact us for advice.

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 to the employer and free of tax and NICs for the employee.

Property

Where property which 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, if you wish.

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. On the other hand, receiving rent may mean a bigger capital gains tax bill if or when you decide to sell the property, so care needs to be taken to weigh up the pros and cons.

Talk to us about the most tax-efficient ways to extract profits from your business.

We are here to help...

Make good use of us! This guide is designed to help you identify areas that might have a significant impact on your tax planning. Please consult us early for help in taking advantage of tax-saving opportunities. We will be delighted to assist you.

My Year End Checklist!

- ☐ Make the most of my 2013/14 ISA allowance
- ☐ Talk to my accountant about ways to extract profits from my business at the smallest tax cost
- ☐ Find out how the timing of dividends and bonuses could reduce or defer tax
- ☐ Review my pension arrangements
- ☐ Put in place a tax-efficient gifting strategy
- ☐ Find out the impact of accelerating disposals into the current financial year or deferring them into the next
- ☐ Claim capital allowances for expenditure on business equipment
- ☐ Review my estate plan and my Will
- ☐ Plan to minimise the tax take, including VAT and capital gains tax
- ☐ Consider ways of improving cash collection
- ☐ Make sure I am offering tax-efficient staff remuneration packages
- ☐ Send my business and personal records to my accountant in good time
- ☐ Contact my accountant regarding these and any other issues relating to my business, tax and personal financial situation.