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2015/16 Year End Strategies

Inside this guide...

- Will you make the most of the latest ISA changes?
- Saving for retirement – the tax-efficient way
- Capital allowances: getting the timing right
- Business motoring – drive down your tax bill
- Your estate – lifetime planning for big tax savings
- How to keep more of your profit
- My Year End Checklist

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.

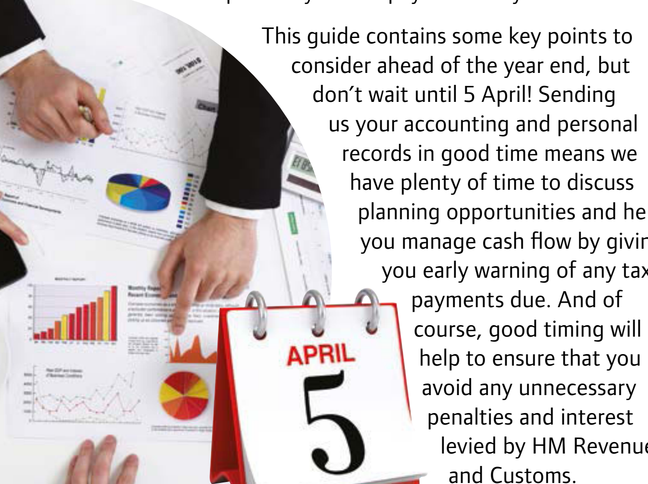
Since taking office, the new all-Conservative Government has already outlined a number of significant reforms to the tax rules, many of which may have an impact on your financial planning for 2015/16 and beyond.

As your accountants 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 impact on 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! Sending us your accounting and personal records in good time means we have plenty of time to discuss planning opportunities and help you manage cash flow by giving you early warning of any tax payments due. And of course, good timing will help to ensure that you avoid any unnecessary penalties and interest levied by HM Revenue and Customs.



Are you liable to the 'hidden' tax rate?

If your income exceeds £100,000 you will already be paying tax at 40% – this begins when taxable income exceeds £31,785 – but your personal allowances are also clawed back by £1 for every £2 by which your adjusted net income exceeds £100,000.

This means that an individual with adjusted net income of £121,200 or more will not be entitled to any personal allowance, resulting in an effective tax rate on this slice of income of 60%!

If you are likely to be affected by this, you might want to consider strategies to reduce your taxable income and retain your allowances, for example delaying income into the next tax year or increasing 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. However, there is one 'adjusted net 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 2015/16 Tax Return, a donation which would otherwise fall into 2016/17 can be claimed for 2015/16.

Certain rules apply, so please talk to us first about your particular circumstances.

Will you make the most of the latest ISA changes?

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 2015/16. 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 2016 to make your 2015/16 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, which is available from 1 December 2015. 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.

Saving for retirement – the tax-efficient way

Planning for your retirement may not be at the top of your agenda, but with the state pension in 2015/16 worth less than £10,000, it is vital to start thinking about how you will fund your life after work.

Many people do not take advantage of tax reliefs and (tax-deductible) employer contributions when building a fund for their retirement. However, personal contributions to pension schemes attract tax relief worth up to 60%, making them an ideal tax-free investment regime.

For pension contributions to be applied against 2015/16 income they must be paid on or before 5 April 2016. 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 annual allowance is normally £40,000 but due to changes to the allowance system from April 2016, some individuals may escape a tax charge if annual contributions in 2015/16 are below £80,000 and significant contributions were made before 9 July 2015.

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.

From April 2016 the Government will introduce 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 income over £150,000, an individual's annual allowance will be reduced by £1, down to a minimum of £10,000.

The overall tax-advantaged pension savings lifetime allowance is currently £1.25 million. It will fall to £1 million from 6 April 2016. Transitional protection for pension rights already over £1 million will be introduced alongside this reduction to ensure the change is not retrospective.

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.

The rules surrounding pension contributions are complex, so make sure you talk to us for advice.

Capital allowances: getting the timing right

Capital allowances allow the costs of capital assets to be written off against taxable profits. In recent years the Government has been generous with the rates of capital allowances in an attempt to help businesses and encourage greener investment.

For a temporary period from 1/6 April 2014 to 31 December 2015, the majority of businesses are able to claim an Annual Investment Allowance (AIA) – in effect, a year-one write off – on the first £500,000 of expenditure on most types of plant and machinery (but not cars, to which different rules apply).

The AIA is to reduce to £200,000 from 1 January 2016 and where a chargeable period straddles this date, the maximum amount of AIA entitlement is calculated on a pro-rata basis. There are also restrictions on the amount of expenditure which can qualify for AIA depending on when the assets were purchased.

'Greener' investment is encouraged through specific 100% allowances available for some investments, including energy-saving equipment and low CO_2 emissions (up to 75 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.

Careful consideration should be given to the timing of any expenditure to ensure you are able to maximise the available relief. Please speak to us for further advice.

Business motoring – drive down your tax bill

The company car can be an important part of the remuneration package for many employees – and a crucial business tool for employers. However, tax and national insurance costs could mean that the company car is not 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%, is calculated at up to 37% of the list price (car) and the same percentage on a notional £22,100 (fuel).

It may well be worth conducting a complete review of your company car policy, as it could prove more beneficial to pay employees for business mileage in their own vehicles at the statutory mileage rates, especially if their business mileage is high.

We can help you decide on the most efficient way to organise your business motoring.

Your estate – lifetime planning for big 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 could 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 Government has announced 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 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…

Take advantage of reliefs of 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.

IHT exempt transfers between spouses

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.

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

Nil-rate band on David's death	£312,000
Used on David's death	£50,000
Unused band	£262,000
Unused percentage	83.97%
Nil-rate band at the time of Jane's death	£325,000
Entitlement	183.97%
Nil-rate band for Jane'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

A programme of lifetime gifts can also significantly reduce the IHT liability on your estate. As long as you survive the gift by seven years and no longer continue to benefit from the gift yourself, it will escape IHT. Gifts also have the advantage of allowing you to witness your family members benefitting during your lifetime.

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

Trusts can be used to help maintain a degree of control over the assets being gifted, especially useful 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.

Your Will

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.

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.

How to keep more of your profit

There are a multitude of ways to extract profits from your company. However, it is important to pick the best option to suit you as each method has implications – not just for tax, but for your business as a whole. We can help you decide on the best strategies for both you and your company. Here we outline some of the key areas to consider.

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, particularly as sweeping changes to the dividend taxation rules are planned for 2016.

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 for the company, whereas dividends are not. 5 April 2016 is the last date for paying a 2015/16 dividend, and any higher or additional rate tax on that dividend will not be due until 31 January 2017.

Note that the Government has announced its intention to abolish dividend tax credit from 6 April 2016 and introduce a new Dividend Tax Allowance of £5,000 a year. The new rates of tax on dividend income above the allowance will be 7.5% for basic rate taxpayers, 32.5% for higher rate taxpayers and 38.1% for additional rate taxpayers. These rates replace the current effective tax rates of 0%, 25% and 30.6%. While there will still be benefits for a director-shareholder taking a dividend over a salary, the amount of tax saved will be reduced. It may therefore be worth increasing your dividends before 6 April 2016, although there may be other tax issues to consider, such as loss of the personal tax allowance if your total 'adjusted net income' exceeds £100,000.

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 some 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!

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.

We would be happy to assist you – please contact us for advice.

My Year End Checklist

- ☐ Make the most of my 2015/16 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 my tax bill
- ☐ Carry out a review of 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
- ☐ Review my estate plan and my Will
- ☐ Discuss ways of improving cash flow
- ☐ Make sure I am offering tax-efficient staff remuneration packages
- ☐ Send my business and personal records to my accountant in plenty of time
- ☐ Contact my accountant regarding these and any other issues relating to my business, tax and personal financial situation.

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.

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