Tax & Financial Year-End Planning for 2016/17

Tuesday 6th December 2016

Madingley Hall

Tax & Financial Year-End Planning for 2016/17

- **Introduction**

  James Pinchbeck, Marketing Partner
- **Tax Planning**

  Paul Brophy, Tax Partner
- **Financial Planning**

  Jane Smethurst, Chartered Financial Planner
- **Making Tax Digital**

  Michael Ball, Tax Adviser

Tax Planning

Paul Brophy
Tax Partner

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Autumn Statement Overview

- The end of the Autumn Statement
- Personal tax
- Insurance premium tax
- Corporation tax
- National Insurance

Taxation of Dividends

- Major changes to taxation of dividends from April 2016
- Increase in tax rates
- Tax free £5,000 allowance
- Abolition of tax credit

Taxation of Dividends

	Effective Tax Rate	
	2015/16	**2016/17**
Basic Rate	0%	7.5%
Higher Rate	25%	32.5%
Additional Rate	30.6%	38.1%

Planning for the New Rules

- Incorporation - still worthwhile?
- Remuneration policy – dividend or salary
- Use £5,000 allowance
  - Spouses and adult family members
  - Employees

Taxation of Buy to Lets

- Changes in recent times
  - Restriction of interest relief from 2017/18
  - Increase to rent a room relief since April 2016
  - Since April 2016 increase in SDLT by 3%
  - Abolition of wear and tear allowance from April 2016

Restriction of Interest

- Currently relief at marginal rate e.g.20%,40% or 45%
- New rules will restrict to 20%
- Phased in over 4 years from 2017/18

Restriction of Interest - Example

- Higher rate taxpayer has rental income of £18,000, expenses of £2,000 and mortgage interest of £9,000
- In 2016/17 tax liability will be £2,800
- In 2020/21 tax liability will be £4,600
- Potentially profits taxed when real loss made

Restriction of Interest

- Consider
  - Accepting new rules
  - Transfer to lower earning spouse
  - Sell properties
  - Incorporate
  - Increase rent
- Review the position now

Holding property in company

Disadvantages

- No capital gains tax annual exemption
- Double taxation on withdrawing funds

Holding property in company

Advantages

- Corporation tax at 20%
- No mortgage interest restriction
- Indexation allowance
- Share transfers
- Manage personal income

Getting property into company

New property

- Additional 3% SDLT charge for residential
- Loan or share capital
- Mortgage

Getting property into company

Existing property

- Additional 3% SDLT charge for residential
- Capital gains tax
- Lender approval
- Properties in partnership?
- Actively managed?

Annual Tax on Enveloped Dwellings (ATED)

- Where residential property acquired by companies
- Affects SDLT (15%), CGT (no PPR) and Income Tax (annual charge)
- Originally applied to properties with a value of over £2 million, now reduced to £500,000, with revaluation on 1 April 2017
- Exemptions including rented properties and working farmhouses
- Exemption not automatic – claim by 30 April

Enterprise Investment Scheme

Capital gains deferral

- Tax rate 28% in 2015/16
- Reinvest gain within 3 years
- Tax rate on future gain – 20%?

Enterprise Investment Scheme

Surplus funds in company

Dividend	£52,000	Tax	£16,900
EIS Investment	£50,000	Relief	£15,000

BPR qualifying investment

Family Investment Company

Alternative to trusts?

- Corporate tax rate of 19% from 1 April 2017
- Income tax rates 45% / 38.1%

Family Investment Company

- Fund with cash
- Loan or share capital
- Simple to set up
- Retain control

Family Investment Company

Tax Drivers

- Indexation allowance on gains
- Dividends tax free
- Tax relief for management fees
- Gift of shares is Potentially Exempt Transfer

Family Investment Company

Other matters

- Different share classes
- Interest on loan
- Redeemable preference shares
- Suited for long term investments
- Identify appropriate investments

Family Investment Company

Potential downsides

- HMRC review of use of corporate vehicles
- Filing of accounts with Companies House

Annual Investment Allowance (AIA)

- A 100% tax deduction for qualifying expenditure, e.g. plant and machinery
- Reduced to £200,000 from 1 January 2016
- If large capital expenditure planned consider splitting over two accounting years

Directors Loan Accounts

Overdrawn:

- Outstanding balance 9m after year-end – CT charge on balance
- Loans before 5 April 2016 – 25%
- Increased to 32.5% for later loans
- Bed and breakfasting
- If loan in excess of £10,000 will also be BIK for director
- Ensure repayment within 9 months

Credit:

- Consider interest payment to use personal savings allowance

Financial Planning

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Agenda

- Round up of Autumn Statement announcements
- Pensions update
- Alternatives to Pensions
- Inheritance Tax Planning
- Savings and ISAs
- Summary and End of tax year checklist

Autumn Statement – financial planning considerations

- Good news and Bad news – Salary Sacrifice
- Money Purchase Annual Allowance to reduce to £4000
- NS&I – new savings bond – 2.2% interest….
- Junior ISA/Child Trust Fund – both allowances to increase to £4128

Recent Changes

- Dividend Tax
- Mortgage interest relief to reduce
- Buy to Let market changing
- Personal allowance rising
- CGT on property remains at 18% and 28%
- CGT on everything else 10% and 20%
- ISA allowances to increase
- Lifetime ISA to be introduced
- New Flat Rate state pension
- Pension Freedoms…

Summary – what does it all mean?

- Significant activity over the past couple of years
- Changes only taking effect this year onwards
- Confusion as to the overall effect on wealth
- More important than ever to take comprehensive advice…
- Fail to plan means plan to fail - this can involve running out of money!

Pension Update

So where are we?

- Freedom and Choice
- Huge increase in Scams
- Confusion
- £4.35 billion has been taken out of pensions since 2014
- 232,000 people taken advantage of freedoms

Pension Update

Retirement needs are changing

- People working beyond state retirement age
- Baby Boomers situations unique…
- Transfers out of defined benefit schemes…
- Pensions are more complicated than ever!

Pension Update

Lifetime Limit and Protections

- Current limit is £1,000,000
- IP and FP16 available – who should apply
- IP14 still available – however only till 5th April 2017

Pension Update

Example of someone qualifying for IP14

Ralf is a hospital consultant. He has been a member of the NHS pension scheme for 35 years.

At the 5th April 2014, his accrued pension was £61,500 per annum. Additionally he had a small personal pension saved up from private practice of £45,000.
So Lifetime allowance used to date is:

£61,500 x 20 = £1,230,000 + £45,000 = total of £1,275,000

Ralf is eligible for IP14 and will protect £1,275,000. All future value will incur a penalty of 55% for sums drawn out as capital, and 25% for income drawn.

Applying for IP14 could save Ralf £151,250, and only takes minutes to do.

Evidence can take time to gather, so check your numbers ASAP!

Pension Update

Death Benefits

- Pre 75 – tax free
- Post 75 – taxed at marginal rate

Pension Update

Example

George has a pension pot of £900,000, and he is taking income drawdown. He dies unexpectedly at age 72.

Wife Mabel is nominated to receive the pension, and as George has died under age 75, she is able to continue the income drawdown but will pay no tax on the income for the rest of her life.

Mabel dies aged 80. She has chosen her daughter Sally as her successor for the pension. Sally is a lawyer and a higher rate tax payer. She maintains the pension and will pay high rate tax on any income she draws.

Sally dies unexpectedly at age 67. She has nominated her son Robert to receive the pension. Robert is 45, and will receive tax free income for the rest of his life…

Pension Update

- Would this work for your pension?
- Not necessarily…
- Review your pension and consider scheme rules
- Ensure your nominations are up to date
- Advice is essential in order to maximise the death benefits

Pension Update

Contributions

- Annual Allowance is £40,000
- Carry Forward for unused relief for previous 3 years
- Money Purchase Annual Allowance £10,000 reducing to £4,000 in April 2017
- Problems for high earners…..Do you regularly earn more than £110,000
- Calculate your ADJUSTED INCOME
- Includes all sources of income and the uplift in the value of occupational pensions
- Taper applies to income over and above £150,000
- Annual Allowance reduces to £10,000 income over and above £210,000

Pension Update

Most people have plenty of scope to contribute, however

- High earners may have problems
- Members of occupational pension schemes may be using more AA than they thought..
- Consider company pension contributions
- Warning - problems with Auto Enrolment and clients with pension protection

Alternatives to Pensions

- Have you fully funded your pension and looking for tax efficient investment?
- Is your attitude to risk higher than the average person, and can you face losing money?
- Consider a VCT – Venture Capital Trust
- Or an EIS – Enterprise Investment Scheme
- Both schemes offer you 30% tax relief

Alternatives to Pensions

Example:

George invests £30k into a VCT

He gets tax relief of £9k, so investment has only cost him £21k

He must hold the shares for the minimum period of 5 years before selling

In the meantime, tax free income, tax free gains on disposal at the end

- EIS has even more advantages
- Lower holding period – 3 years
- IHT advantage after shares held for at least 2 years and held at death
- Opportunity to defer a capital gain, and to carry back into the previous tax year

Alternatives to Pensions

WARNING

- Take advice from your Tax Adviser and your Financial Planner
- You may make money, but you are equally likely to lose it
- These shares should only be a small part of a well diversified portfolio

Inheritance Tax Planning

- Nil Rate band still fixed at £325,000 until 20/21
- New Private Residency nil rate band from April 2017
- 2017/18 it will be £100k
- A further £25k in each tax year until April 2021, so a total of £175,000
- Must leave your home to your children or grandchildren
- Allowance tapered if estate is valued at more than £2million
- Could mean up to a maximum of £1,000,000 to a couple from 2021
- Check the trust wordings in your will – opportunity to update

Inheritance Tax Planning

Other Strategies

- Business Property Relief schemes
- Assets out of estate in 2 years rather than 7
- AIM ISA
- Examples of AIM companies

Summary

- IHT not going away
- Plan early
- Fusion advice….

SAVINGS

All things ISA (Individual Savings Account

Hey, Audience participation!

How many types of ISA can you name?

Savings

- Basic ISA – cash or stocks and shares (or combination)
- Help to Buy ISA and then the Lifetime ISA
- Innovation Finance ISA
- Inheritance ISA
- AIM ISA
- Junior ISA

- Straightforward?
- Allowance goes up to £20,000 per person from April 2017
- Fantastic opportunity to build a tax free pot of money

Summary

Action Stations for Year-End

- Consider your income and expenditure
- Have you kept a good emergency/rainy day fund?
- Have you had a pension review?
- Top up your pension, maybe carry forward unused relief..
- Consider your ISA allowance – top up where possible
- Move existing OEICS/Unit trusts into ISA
- Consider opening a Junior ISA for children or grandchildren
- Want to crystallise any gains? Gift to spouse first?
- Assign policies to spouse prior to encashment – leave enough time

Summary

Tax Returns

- They should already be underway or ideally complete…
- Get your information for 2015/16 to your accountant ASAP
- New Year's resolution to sort out tax return as soon after 6th April 2017 as possible…

Take Advice – It is good to talk! We might be able to help save and make you money!

Making Tax Digital

Who, What & When

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Who?

- Everyone who currently does a tax return.
  - Tax return as we know it is going.
  - Replaced by submission(s) through digital tax accounts.
  - Largest effect will be on:

    Self Employed

    Partnerships

    Landlords

    Companies (From April 2020)

What?

- Basic Tax Return will be submission through Digital Tax Account.
- Self Employed, Partnerships and Landlords will have to:
  - Keep Records Digitally
  - Make quarterly (at least) submissions
  - Plus end of year adjustments submission
  - Deadlines based on Accounting period

When?

- 5 April 2018
  - End of Tax Return as we know it.
  - Initially only larger businesses and landlords.
  - Threshold not yet know.
- 5 April 2019 Smaller businesses and landlords.

- April 2020 Corporates

Who? - Exemptions

- Under £10,000 turnover / gross rents (NB added together) – whether a secondary source of income or not
- Charities, CASC's
- Exemption for those who "cannot engage digitally"
  - Currently defined for VAT – 2 categories
  - A person who is a practising member of a religious society or order whose beliefs are incompatible with the use of electronic communications
  - Persons for whom online filing is not reasonably practicable for reasons of disability, age, remoteness of location or any other reason.
- More? Self claimed with evidence. Use past turnover and circumstances to claim for coming year.

What? - Digital record keeping

- Use any internet enabled device – most apps will be cloud based
- Record income and expenditure as near to real time as possible
- The option of free software for the smallest businesses
- Other support from HMRC with transitional and ongoing costs
  - What form might this take?
- BUT – likely to be a challenge for some businesses and landlords.

What? - Quarterly Updating

- Rests entirely on digital record keeping
- This should be almost automatic from digital records
- Looking forward – will also include VAT return (From 5 April 2019)
- One month deadline!
- No more than 3 months after the last but more frequent updates possible
- Summary level data only – to mirror the SE / L&P pages
  - Details will be held with record keeping software
- Option to adjust for accruals, stock, tax adjustments etc if desired
- Review or check before submitting?
- Or pick this up when finalising profits for the year?
- Will produce estimated tax calculation and can pay early if they want to (Pay As You Go – See later).

What? - Finalising the year

- Proposed that this is a stand alone process but for some could be done with Q4 update
- 9 months after the end of the accounting period
- BUT 9 months from 31 March is 31 December
- Consultation includes proposals for making this easier.
  - Accounting simplification
  - Extended Cash basis.

"Prompts and nudges"

- Idea is that record keeping software will provide "Prompts and Nudges" re Potential errors and PU!
- Both while data is being added and when the quarterly update is being put together by the software
- Identifying common errors and highlighting where the data "looks wrong"
- Embedded within accounting software apps
- Intended to increase accuracy as early as possible

Example: A

- Salary, P11d & Dividends
  - Salary prepopulated.
  - P11D (?) eventually will be prepopulated
  - Dividends
    - Eventually Brokers will provide directly
    - Ltd Companies? (Part of their submission?)

Example: B

- Landlord or Self Employed
  - From April 2019 all with Gross rent/turnover above £10,000:
    - Digital Records and Quarterly reporting
    - Rental based on April year end (July, October, January & April)
    - Business based on accounts year end.
    - End of Year submission, 9 month deadline (Christmas!)
    - NB: Tax Still due 31 January (& 31 July)
  - For Partnerships, one submission and will prepopulate partners.

Example: C

- Landlord & Self Employed
  - Quarterly submissions for both based on:
    - Accounting year end for Business
    - & Tax year end for rents
  - Therefore potentially 10 submissions
    - May cause problems if have early accounts period, as 9 months may fall within tax year. (May yet change).

Voluntary ‘Pay As You Go’

- Offered as an option
- No current plans to change payment dates
- Voluntary payments at a time chosen by the taxpayer
  - In line with quarterly updates?
  - Regularly by direct debit?
  - Variable as and when?
- Design principle – simple, flexible, voluntary
- HMRC will be providing estimates of tax based on quarterly updates

Better use of information

- Better and more effective use of third party information to keep the tax collected closer to the correct liability
- Taxpayers update their digital tax account regularly – nearer to real time
- From April 2017 digital tax accounts will include information from employers and pension providers
- From April 2018 include savings income (only relevant where > Personal Savings Allowance) and adjust code
    - But can choose to opt out of coding adjustment

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