

PERSONAL TAX GUIDE

2014/15

*So, do I need to
complete a tax
return?*

*If I do, when
do I need to pay
the tax?*

*I pay too
much tax
already!*



Tax facts and planning opportunities

This guide provides a useful reference to the key tax facts for the 2014/15 year, along with some suggestions and ideas to help you save tax.

Please contact us if you would like to talk about any of the information or ideas in the guide or require any advice regarding tax matters generally.

The purpose of this guide is to provide some easy to read information relating to the current tax year ending 5 April 2015, which we hope you will find relevant and interesting. In the planning section we have set out a framework for thinking about tax planning and included some suggestions to help minimise your tax bills.

The information contained in this guide is for general guidance only. Tax advice and planning is necessarily very specific to your individual and unique circumstances. We would always recommend seeking professional advice before taking any action.

We offer a free tax helpline and e-mail service. This is intended to cover general queries, for example, whether you need to complete a tax return. We also offer a range of tax services which can be tailored to your individual requirements.

Our contact details are at the back of this guide

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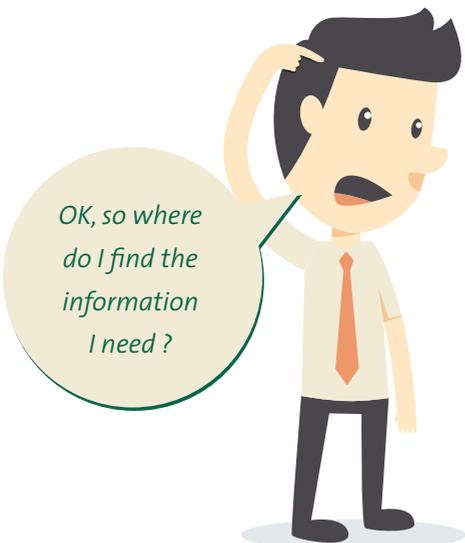
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OK, so where do I find the information I need?

Key tax dates - 2014/15

April 6	First day of new tax year
May 31	You should have received your form P60 for the last tax year in respect of all employments and pensions
July 6	You should have received your form P11D (return of expenses and benefits) by this date
July 31	Deadline for second Self Assessment payment on account for the tax year ended 5 April 2014
October 5	Deadline to notify chargeability to income tax or capital gains tax for the year ended 5 April 2014, if not already registered for Self Assessment (there is a penalty of up to 30% of any tax for failure to meet this deadline)
October 31	Deadline for paper submission of tax returns for the tax year ended 5 April 2014. After this date tax returns must be filed online
December 30	Deadline for online submission of tax returns for the year ended 5 April 2014 if there is unpaid tax of up to £3,000 which you wish to be collected through your PAYE code
2015	
January 31	Deadline for online submission of tax returns for the year ended 5 April 2014. An initial penalty of £100 applies to any return filed after this date (see note below on further penalties) Deadline for paying the Self Assessment balancing payment for the tax year ended 5 April 2014 along with any capital gains tax liability for that year Deadline for the first Self Assessment payment on account for the tax year ending 5 April 2015
February 28	Any tax for the year ended 5 April 2014 not paid by this date is subject to a 5% surcharge in addition to normal interest on late paid tax (a further 5% surcharge applies to any tax still unpaid after 31 July 2015)

Note: Penalty for failure to file a tax return by the deadline:

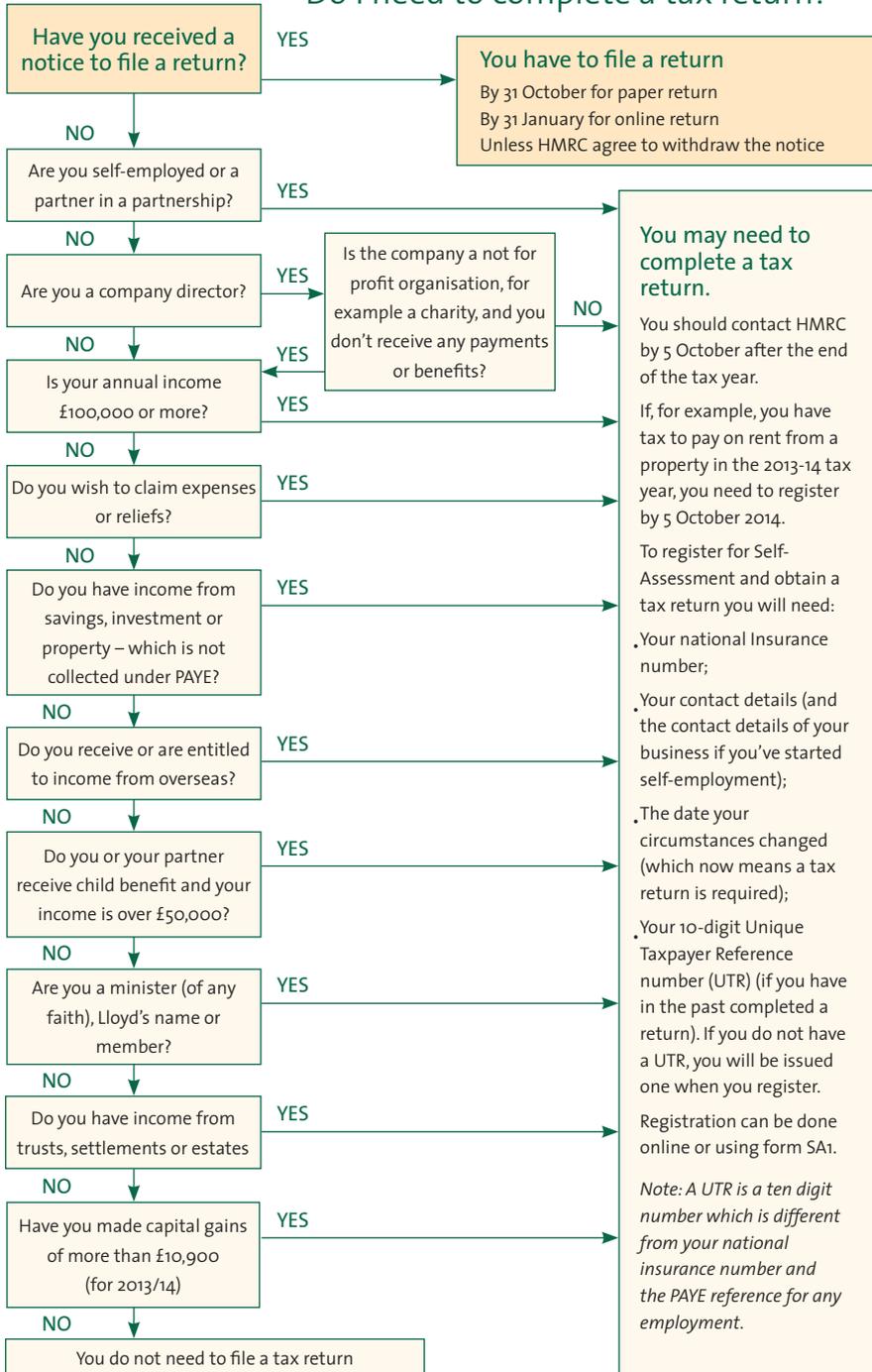
Initial penalty - £100

If failure continues for a further 3 months - £10/day up to 90 days (subject to issue of notice)

If the return is six months late - Greater of 5% of tax due and £300.

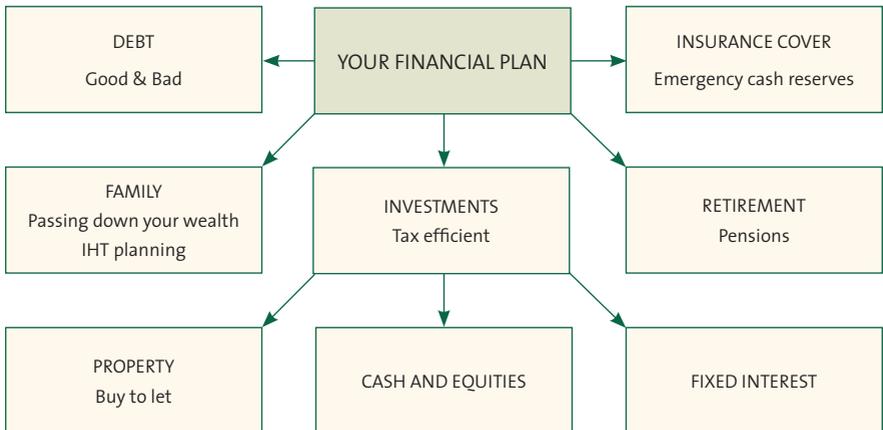
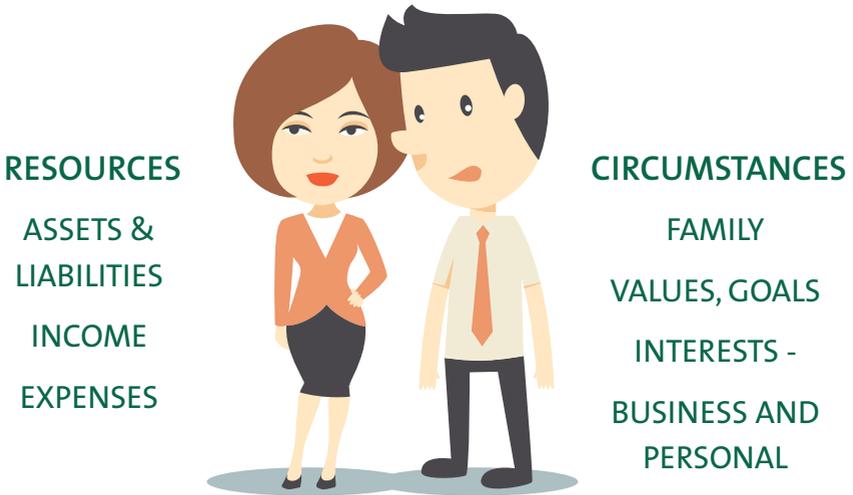
If the return is twelve months late - Greater of 5% of tax due and £300 (if deliberate – penalty = 70% of tax due)

Do I need to complete a tax return?



Tax planning

The old adage that the tax tail should not wave the dog is as true now as it has always been. Tax planning is always only a part of your larger financial and wealth plan. There can be many different aspects to a financial plan depending on where you are in your life and the resources you have available to you.



Tax plays a part in all these aspects. The purpose of tax planning is to minimise the amount of tax that you pay in any given circumstance and so maximise your net of tax income and gains to help you realise your financial plan.

For most people effective tax planning involves considering just 6 key areas.

Planning in this context does not involve entering into some esoteric tax avoidance scheme of the type that we all read about in the press and which are all very firmly within the HMRC's sights. Rather it is simply the arranging of your affairs such that you pay the minimum amount of tax that you are legally required to pay in any set of circumstances. Below, for each principle, we set out the circumstances in which planning might be beneficial, some examples of that planning, and where relevant additional considerations. What follows highlights some of the opportunities, they will not be relevant to everyone and there are many other opportunities available.

1 - EQUALISING INCOME AND GAINS

Whilst many of the tax reliefs for those who are married or in a civil partnership have been withdrawn over the years, being married or in a civil partnership does still offer valuable tax advantages, in particular the ability to transfer assets without triggering a tax disposal.

Relevant circumstances:

You have a spouse or civil partner and one of you pays tax at the higher rates and the other does not pay tax or is a basic rate taxpayer.

Planning:

Transfer income yielding assets to your spouse or civil partner. Similarly, if you have assets which are expected to produce a capital gain in the hands of one partner, transfer the asset or an interest in the asset to the other, to double up on the annual capital gains exemption of £11,000 and utilise the lower rate capital gains band.



Example

You have earned income of £95,000 and have an investment property in your name yielding a rental profit of £15,000. Your spouse/civil partner has total income of £15,000.

By transferring the property to your spouse or civil partner, there is a tax saving of £5,000.

Example

You have a flat in London which is standing at a £250,000 gain; it is used by you and your partner when staying in London. You have a separate main residence which was purchased last year. Tax on the gain at 28% after the annual exemption is £66,920. If you transfer the flat to your partner who jointly with you makes a principal private residence election (and you continue to make some use of the flat as a residence), then, when sold the entire gain could be covered by the principal private residence relief, saving tax of £66,920.

Note – it is proposed to abolish the principal private residence relief election from April 2015.

Considerations:

Consider carefully the assets to transfer, for example, a stamp duty land tax liability can arise if you transfer a property subject to a mortgage. There are considerations other than tax to take into account in transferring assets. This planning can also be relevant in other circumstances but additional tax considerations will apply.

2 - PENSIONS

The flexibility that private pensions will have from April 2015, combined with the tax reliefs for pension contributions, greatly increases their attractiveness as tax efficient investment vehicles.

Relevant circumstances:

Widely relevant to all taxpayers where the life time allowances have not been exceeded.

Planning:

Planning can now be relevant for:

Families

Stakeholder pensions allow contributions to be made by, or for all, UK residents, including children and non-working partners with net contributions of up to £2,880.

Working individuals pre-retirement

The annual limit for total personal and employer contributions was reduced to £40,000 from April 2014. However, unused allowances from 2011/12, 2012/13 and 2013/14 (£50,000 for each year) can be carried forward into the current year.

Working individuals post-retirement

Pension contributions can continue to be made even after retirement and the drawing of a pension. Individuals over 60 can take up to three 'small' pension pots, of up to £10,000, all as a lump sum.

Retired individuals

For those not in final salary pensions and who have not taken an annuity, a range of flexible drawdown options will be available from April 2015.

Examples

1. A couple's eldest son is 35, married with 2 children. He earns £60,000 and his spouse £30,000. As part of their inheritance tax strategy the couple pay £2,880 into a stakeholder pension for their son. The son can claim a tax reduction of £720 and a reduction in the child benefit charge of £637.42, an overall tax benefit of £1,357.42. He has a grossed up pension contribution into his pension plan of £3,600.

2. A 54 year old individual inherits £100,000 from a deceased parent. His earnings are £150,000 with no other income. His employer has made an annual contribution of £20,000 into his pension plan over the last few years. The value of his plan is comfortably below the lifetime limit. For the current year the individual can make a contribution, taking account of his employer's contribution, of £110,000. He pays £88,000 into the plan, on which the pension provider recovers £22,000 from HMRC, to give a grossed up contribution of £110,000. The individual claims higher rate tax relief of £25,627. When he is 55, he can take 25% of the value of the pension plan as a tax free lump sum, say £27,500. He will then have received back £53,127 of the £88,000 contribution made, and still have a pension pot of £82,500.

3. A 60 year old individual who is a 40% taxpayer pays £8,000 into a new pension fund (separate from any existing pension funds). The pension provider claims the basic rate relief giving a pension fund total of £10,000. The individual has higher rate tax relief of £2,000. The individual then takes the pension pot as a lump sum, as it is a small pension (no more than £10,000). 25% of the lump sum, £2,500, is tax free. The balance, £7,500 is taxed as income at 40%, a tax bill of £3,000. In total the individual has paid out £8,000, he receives higher rate tax relief of £2,000, giving a net cost of £6,000. He gets back £10,000 less £3,000 tax, ie. £7,000, a net gain of £1,000.



That's even better news

Considerations:

Regard needs to be had to the lifetime limit which is now £1.25m. Pension pots which have a value in excess of this amount, unless an election has been made for 'protection', will be subject to more penal tax charges. There are anti-recycling rules to prevent the reinvestment of the 25% lump sum into a further pension plan, these apply where the lump sum taken is more than £12,500. Further restrictions may be introduced in next year's finance bill. Depending on the nature of the investment in the pension plan there will be investment risk.

3 - TAX EFFICIENT INVESTMENTS

There is a range of tax efficient investments available to suit most investment preferences and risk profiles.

Relevant circumstances:

Any UK resident individual with investment assets or surplus cash.

Planning:

When looking at any investment opportunity, consider whether the investment can be made within a tax wrapper, to minimise income tax, capital gains tax and inheritance tax.

Example

The table below summarises the main tax wrappers available:

Tax wrapper	Income tax benefit	Capital gains tax benefit	Inheritance tax benefit	Limits/other notes
Cash ISA	Yes - tax exempt	N/A	No	£15,000 pa from 1 July 2014 including any stocks ISA
Stocks ISA (listed shares, bonds)	Yes - tax exempt	Yes - exempt	No (unless invested in trading AIM companies)	£15,000 pa from 1 July 2014 including any cash ISA.
Enterprise Investment Scheme (EIS) - shares	Yes - 30% tax relief on investment. Any dividends taxable	Yes - if held for qualifying period (usually 3 years) Deferral relief for gains reinvested	Yes - usually business property relief (100%)	£1,000,000
Seed EIS - shares	Yes - 50% tax relief on investment. Any dividends taxable	Yes - if held for qualifying period (usually 3 years) 50% reduction in capital gains tax on gains reinvested	Yes - usually business property relief (100%)	£100,000

Tax wrapper	Income tax benefit	Capital gains tax benefit	Inheritance tax benefit	Limits/other notes
Venture Capital Trust (VCT) - shares	Yes - 30% tax relief on investment. Any dividends are exempt in respect of the qualifying investment	Yes – if held for qualifying period (usually 5 years)	Yes – usually business property relief (100%)	£200,000
Community Investments – share purchase or loans	25% tax relief, claimed over 5 years. Any dividends or interest is taxable	No	No	Must be in accredited community development finance institution
Social Investments – share purchase or loans	30% tax relief on investment	Yes – if held for qualifying period (usually 3 years) Deferral relief for gains reinvested	No	£1,000,000
Insurance bonds – UK	5% of original capital can be withdrawn tax free each year. Income tax paid with basic rate credit on excess and maturity gains	N/A	Often used as part of IHT planning – by writing in trust	No limit
Insurance bonds – offshore	Withdrawals all taxed as income with no basic rate credit	N/A	Often used as part of IHT planning – by writing in trust	Useful if likely to be a non resident when encashed
National Savings: Premium bonds Index linked bonds	Yes – exempt	N/A	No	Limits apply



4A - PLAN AROUND THE 'CLIFF EDGES' - £100,000

Recent tax changes have introduced two 'cliff edges', these are where the marginal rate of tax on income spikes. One cliff edge is at £100,000. For every £2 of income above £100,000, the personal allowance is reduced by £1. This means that on income between £100,000 and £120,000, you are paying an effective tax rate of 60%.

Relevant circumstances:

Your total income is £100,000 or more.

Planning:

Reduce your taxable income which would otherwise fall within the £100,000 to £120,000 band. This can be done by transferring income yielding assets to a lower tax paying spouse or civil partner (see above), making pension contributions, changing income into non-taxable forms, deferring income or making charitable donations.

Example

If your annual salary is £120,000 and you agree with your employer to sacrifice £20,000 in return for an employer's pension contribution of £20,000, you save tax and national insurance of £12,400. A £20,000 pension contribution would have then cost you only £7,600. In addition your employer saves employer's NIC of £2,760.

Considerations:

Salary sacrifice arrangements need to be setup carefully to be effective. Regard needs to be had to the pension annual allowances and life time limits.

4B - PLAN AROUND THE 'CLIFF EDGES' - £50,000

The other cliff edge is at £50,000 if you are in receipt of child benefit. Child benefit is clawed back at a rate of 1% for every £100 that the income of the highest earning partner is over £50,000. Where income is over £60,000, all child benefit is lost. The more children you have, the higher the effective rate of tax on income in the band £50,000 to £60,000, ranging from 51% if you have one child, to 79% if you have five children.

Relevant circumstances:

You have children under the age of 16 (or up to 18 in full time education) and you or your partner has income of more than £50,000.

Planning:

Reduce the higher earning partner's taxable income to below £50,000. This can be done by reallocating trading profits or assets between partners, making pension contributions, deferring income or making charitable donations.

Example

A couple with 3 children, where one partner has an income of £60,000 and the other £30,000 will lose child benefit of £2,475, an effective tax rate of 64.75%. A couple where one partner has an income of £50,000 and the other £40,000 will not only keep child benefit of £2,475 but will also save tax and national insurance of £1,000, so in total they will be £3,475 a year better off than the first couple.

Considerations:

Where a couple are not married or in a civil partnership, additional tax considerations may apply for the transfer of any assets.



5 - MAXIMISING TAX RELIEFS

There are in excess of 1,100 tax reliefs available to individuals and businesses. Ensuring that you fully utilise the reliefs available will help to minimise your tax bills.

Relevant circumstances:

Tax reliefs apply across the whole population, they range from the automatic and common reliefs, such as the annual personal allowance, to the more obscure and claimable reliefs such as roll over reliefs. The availability of reliefs will depend on your circumstances.

Planning:

To claim all advantageous reliefs and ensure that you do not lose out on reliefs by failing to meet all the conditions.

Example

1. If you let out a property that was worth more than the mortgage secured on it when you first started to let the property, you may be able to increase your borrowing against that property. The additional interest paid can then be deducted from the rental income which could reduce your tax at your marginal rate. The capital released from the additional borrowing can be used to replace personal borrowings. For example, you start to let out a former holiday home purchased for £100,000 against which you had a £50,000 mortgage. When you start to let out the property it has a value of £200,000. You now borrow a further £100,000 secured on the property. The interest on this new loan can be set against the rental income. The capital could be used to repay a mortgage on your personal residence on which interest relief is not available.
2. Gift aid donations made prior to submission of your tax return can be treated as made in the prior year, accelerating the tax relief due and possibly obtaining relief at a higher rate. Your income for 2013/14 was £110,000 which included an exceptional bonus of £10,000. You regularly give £500 a month to charity. By delaying submission of your 2013/14 tax return until 31 January 2015, you obtain relief for £5,000 of donations paid in the current year against your 2013/14 tax bill, this will reduce the tax bill for that year by £2,500.
3. Commonly a commercial property used by a business will be held individually rather than by the company. The gain on a commercial property which is sold in connection with the disposal of the shares in the business can qualify for the 10% entrepreneur's rate of capital gains tax. However, the 10% rate is not available if you have charged a rent to your company.

Considerations:

Most reliefs are subject to various conditions and many require a claim or election. There is a cap on the maximum amount of unlimited reliefs that can be claimed, of the greater of 25% of income (subject to certain adjustments) and £50,000. The cap does not apply to many common reliefs, such as pension contributions, charitable donations and the Enterprise Investment Scheme.

6 - INHERITANCE TAX PLANNING

Inheritance tax can be an emotive topic. We all naturally want to contribute to the financial security of our loved ones on our deaths, but our attitudes to inheritance tax and planning in advance of death vary widely. Whether you undertake any inheritance tax planning, and if you do, the extent you do so, is very much a personal decision. As a minimum, though, you should have a will in place which is reviewed on a regular basis, and updated as necessary.

Relevant circumstances:

Any individual who has or expects to have an estate worth more than either £325,000 individually or £650,000 as a couple.

Planning:

Formulate an inheritance tax strategy and keep this under regular review along with your will. An inheritance tax strategy can be as simple as ensuring that you fully utilise the annual inheritance tax exemptions, to more complex trust and family investment company structures.

Examples:

1. A couple have net assets of £1m which includes their matrimonial home worth £600,000. They have 2 grown up children and 4 grandchildren. They have state and private pension income which meets their living costs. At current rates and limits, their combined inheritance tax bill will be £140,000. They utilise their annual exemptions (£3,000) by paying £3,000 into a pension for each child and each paying £250 for each grandchild into a children's bonus bond. After 10 years the couple have reduced the value of their estate by £80,000, reducing their inheritance tax liability by £32,000. They have provided both their children with a pension pot (or additional pot) of £37,500 each (£75,000 combined) and provided each grandchild with a bond worth (before interest and bonuses) £2,500 (total £10,000).

2. An elderly widow has a life expectancy of up to 4 years. She has an estate comprising mainly investments valued at £750,000. Her expected inheritance tax liability at current rates and limits is £170,000. On taking investment advice she transfers £250,000 worth of investments into a fund which invests in stocks qualifying for business property relief. She dies 3 years later, when her estate is worth £750,000. Her inheritance tax liability is though now £70,000, a reduction of £100,000 due to the business property relief. If instead of investing into a qualifying fund, she had gifted £250,000 to her beneficiaries, the inheritance tax liability would only be reduced by £2,400.

3. A director is owed £500,000 by his personal trading company. His estate is worth significantly more than £325,000. The company qualifies for business property relief, but the £500,000 loan forms part of his estate on death, attracting an inheritance tax liability of £200,000. The director uses the loan to subscribe for redeemable shares in his company. These attract business property relief and so his potential inheritance tax liability is reduced by £200,000.

Considerations:

Inheritance tax planning will often involve different types of financial product. Investment, as well as tax, advice should always be sought when devising and implementing an inheritance tax strategy.

About us:

For over 40 years, Baxter & Co has been making sense of the numbers. Helping our clients and their families to secure their financial future and to build profitable and sustainable businesses through the provision of sound business and tax advice. Based at Lynwood House, Crofton Road, with over 50 staff and partners, we provide a friendly and professional service to individuals and businesses.

We provide a range of services for individuals from our full tax compliance service to inheritance tax reviews and our tax helpline and clinic. For more information, please e-mail or call:

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