# PERSONAL TAX GUIDE

2015/16


Baxter & Co.

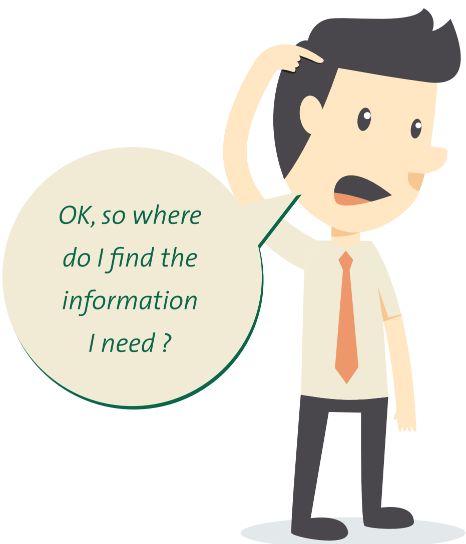
CHARTERED CERTIFIED ACCOUNTANTS

# Tax facts and planning opportunities

In this guide we set out a framework for thinking about tax planning and include some suggestions to help minimise your tax bills. This is only a small selection but gives you an idea of how we might be able to help.

The information contained in this guide is based on current tax rates and bands and is for general guidance only. The tax rules are continually changing, with further major changes, such as the dividend tax which will be introduced next year, being announced in the summer budget. Tax advice and planning is necessarily very specific to your individual and unique circumstances and we would always recommend seeking professional advice before taking any action.

We offer a free tax helpline and e-mail service, which can be accessed through our website: www.baxterco.co.uk/ask-an-expert. You can also download our Baxter & Co app from Google Playstore or the Apple Store, which provides up to date tax information and a range of useful apps and calculators.





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# Key tax dates - 2015/16

| | |
|---|---|
| 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 2015 |
| October 5 | Deadline to notify chargeability to income tax or capital gains tax for the year ended 5 April 2015, 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 2015. After this date tax returns must be filed online |
| December 30 | Deadline for online submission of tax returns for the year ended 5 April 2015 if there is unpaid tax of up to £3,000 which you wish to be collected through your PAYE code |
| **2016** | |
| January 31 | Deadline for online submission of tax returns for the year ended 5 April 2015. 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 2016 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 2016 |
| February 28 | Any tax for the year ended 5 April 2015 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 2016) |

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?

**Have you received a notice to file a return?**

YES → **You have to file a return**

By 31 October for paper return
By 31 January for online return
Unless HMRC agree to withdraw the notice

NO ↓

Are you self-employed or a partner in a partnership? YES → You may need to complete a tax return.

NO ↓

Are you a company director? YES → Is the company a not for profit organisation, for example a charity, and you don't receive any payments or benefits? (NO → You may need to complete a tax return.; YES → Is your annual income £100,000 or more?)

NO ↓

Is your annual income £100,000 or more? YES → You may need to complete a tax return.

NO ↓

Do you wish to claim expenses or reliefs? YES → You may need to complete a tax return.

NO ↓

Do you have income from savings, investment or property – which is not collected under PAYE? YES → You may need to complete a tax return.

NO ↓

Do you receive or are entitled to income from overseas? YES → You may need to complete a tax return.

NO ↓

Do you or your partner receive child benefit and your income is over £50,000? YES → You may need to complete a tax return.

NO ↓

Are you a minister (of any faith), Lloyd's name or member? YES → You may need to complete a tax return.

NO ↓

Do you have income from trusts, settlements or estates YES → You may need to complete a tax return.

NO ↓

Have you made capital gains of more than £11,000 (for 2014/15) YES → You may need to complete a tax return.

NO ↓

You do not need to file a tax return

## You may need to complete a tax return.

You should contact HMRC by 5 October after the end of the tax year.

If, for example, you have tax to pay on rent from a property in the 2014-15 tax year, you need to register by 5 October 2015.

To register for Self-Assessment and obtain a tax return you will need:

- Your national Insurance number;
- Your contact details (and the contact details of your business if you've started self-employment);
- The date your circumstances changed (which now means a tax return is required);
- Your 10-digit Unique Taxpayer Reference number (UTR) (if you have in the past completed a return). If you do not have a UTR, you will be issued one when you register.

Registration can be done online or using form SA1.

*Note: A UTR is a ten digit number which is different from your national insurance number and the PAYE reference for any employment.*

# 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.

**RESOURCES**

ASSETS & LIABILITIES

INCOME

EXPENSES

**CIRCUMSTANCES**

FAMILY

VALUES, GOALS

INTERESTS -

BUSINESS AND PERSONAL

| | | |
|---|---|---|
| DEBT<br>Good & Bad | YOUR FINANCIAL PLAN | INSURANCE COVER<br>Emergency cash reserves |
| FAMILY<br>Passing down your wealth<br>IHT planning | INVESTMENTS<br>Tax efficient | RETIREMENT<br>Pensions |
| PROPERTY<br>Buy to let | CASH AND EQUITIES | FIXED INTEREST |

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 can involve considering just 6 key areas.

This guide is about how to arrange your financial affairs in order to pay the minimum amount of tax that you are legally required to pay in any set of circumstances. It is not about esoteric or artificial tax avoidance schemes. It is about using various common tax reliefs and incentives. Below, for each area, 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 tax payer.

### 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 £11,100 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. Such a transfer can usually be done relatively simply and in many cases for no stamp duty land tax cost.

**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 £66,892. 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 £66,892.

### 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 now have, combined with the tax reliefs for pension contributions greatly increases their attractiveness as tax efficient investment vehicles. Indeed, they may now be too tax efficient and we can expect more changes over the next few years aimed at restricting the upfront tax relief. Following the summer budget, for this year only it can be possible to pay up to £80,000 into a pension plan. This is then the time to act.

**Relevant circumstances:** Widely relevant to all taxpayers where the life time allowances has 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 contributions of up to £2,880 per annum.

### Working individuals pre-retirement

The annual limit for total personal and employer contributions is £40,000. However, unused allowances from 2012/13 and 2013/14 (when the allowance was £50,000 for each year) and for 2014/15 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. However, the annual limit for making contributions once pension benefits start to be drawn (other than just the lump sum) is reduced to £10,000.

### Retired individuals

For those not in a final salary pension and who have not taken an annuity, a range of flexible drawdown options are now available.

## 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 in his pension plan of £3,600, so in total the son benefits by £4,957 at a cost of £2,880 to his parents.

**2.** A 54 year old individual inherits £80,000 from a deceased parent. His earnings are £130,000 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 the full £80,000. He pays £80,000 into the plan, on which the pension provider recovers £20,000 from HMRC, to give a grossed up contribution of £100,000. The individual claims higher rate tax relief of £21,763. When he is 55, he can take 25% of the value of the pension plan as a tax free lump sum, say £25,000. He will then have received back £46,763 of the £80,000 contribution made, and still have a pension pot of £75,000.


**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.

## Considerations:

Regard needs to be had to the lifetime limit which is now £1.25m, but will reduce to £1m from April 2016. 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 £7,500. There are restrictions on the annual allowance once pension benefits start to be taken. From 6 April 2016, the annual allowance for those earning over £150,000, including pension contributions, or £110,000 excluding pension contributions, is reduced by up to £30,000 on a taper basis. 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 | £15,240 pa including any stocks ISA |
| Stocks ISA (listed shares, bonds) | Yes - tax exempt | Yes - exempt | No (unless invested in trading AIM companies) | £15,240 pa 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 £121,200, 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 £121,200 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. From 6 April 2016 the annual allowance for those earning over £150,000, including pension contributions, or £110,000 excluding pension contributions, is reduced by £1 for every £2 of excess down to a minimum annual allowance of £10,000.

# 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 £2,500, an effective tax rate of 65%. A couple where one partner has an income of £50,000 and the other £40,000 will not only keep child benefit of £2,500 but will also save tax and national insurance of £1,000, so in total they will be £3,500 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. Note - as from 6th April 2017 there will be a restriction on interest relief for additional rate (45%) taxpayers.

2. Gift aid donations made before the 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 2014/15 was £110,000 which included an exceptional bonus of £10,000. You regularly give £500 a month to charity. By delaying submission of your 2014/15 tax return until 31 January 2016, you obtain relief for £5,000 of donations paid in the current year against your 2014/15 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 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 £1.2m 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 £220,000. 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 £70,000, reducing their inheritance tax liability by £28,000. 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) of £2,500 (total £10,000). Note – from 6 April 2017 a new additional nil rate band will be introduced starting at £100,000. This will increase to £175,000 by April 2020. The new band will specifically apply to a residence transferred to an individual's direct descendants. As with the nil rate band it will be transferable, meaning a couple between them, who own a residence with a value of at least £375,000, will have an effective nil rate band of £1m.

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 still worth £750,000. Her inheritance tax liability is 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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