

Tax Update

Pre Budget and year end tax planning

With effectively three Budget statements in 2015 as a result of the General Election and with the next to be held on 16 March 2016, it is little wonder we are suffering from overkill.



Be aware, many of these actions are time sensitive so do not delay in considering your options.



We never really had a 'give away' speech and traditionally more radical measures are pushed forward in the early stage of the parliamentary cycle; so no doubt there will be a raft of further anti-avoidance measures to come. Our specialist tax partners from around the UK will be watching the announcement and will be providing live commentary on the issues outlined by the Chancellor. Follow us on Twitter **@UHYHackerYoung** now in order to pick up our commentary and our 'at a glance' summary of the key proposals following the announcement. We will also be issuing a more detailed summary the following day, which can be viewed on our website at www.uhy-uk.com/Budget-summary.

Yet again, HMRC announced a record number of self-assessment return filings were made on New Year's Day, but no doubt many taxpayers will still be burdened by a late filing penalty. So having dealt with your tax return, there are still several steps that you can take to organise your affairs and legitimately minimise your current or future tax burden.

Be aware, many of these actions are time sensitive so do not delay in considering your options. We can help you to organise your affairs and ensure you meet your deadlines.

We hope you find this publication useful, however please note, this is a general guide that touches on each area very briefly. Circumstances will vary and so not every aspect may be of relevance to you. We advise that you use this as a prompt to discuss your personal circumstances in more detail with your usual UHY adviser before taking action.



Planning for business

Owner/directors' planning

You can save on National Insurance (NIC) by reviewing your remuneration policy to ensure you are utilising company dividends (and rents, if relevant). By doing so you could increase the money in your pocket by more than 10%, even when the additional 45% income tax rate applies. Care needs to be applied as to how this is organised.

Higher rate taxpayers might also waive their dividends so that lower tax band shareholders can benefit. This would result in the company declaring dividends, but care needs to be taken so that the waiver is not treated as a transfer of value for Inheritance Tax (IHT) purposes, or a notional settlement for income tax purposes.

If you are a sole trader or a partnership you could choose to incorporate in order to take advantage of the lower corporation tax rates. Alternatively, if you have falling profits you could benefit from simply changing your accounting date to 31 March or 5 April, but beware; restrictions apply if you have recently changed your date.

Consider other family members' contribution to the business and whether there is scope to apply income to them as an employee or partner, particularly if they pay lower rates of tax. However, income must generally be commercially commensurate with their contribution.

Pension contributions remain an effective means of reducing tax but, unlike remuneration, they need to be paid in the fiscal period to obtain relief. Take advantage of unused relief from earlier years, and the extra transitional relief available in 2015/16, if you can afford to pay more than the current annual maximum contribution of £40,000. Those with income over £150k particularly need to address using these reliefs before the new restriction to £10,000pa comes into effect in April 2016.

Remember to pay all remuneration and bonuses within nine months of the end of the accounting period to ensure you obtain a business tax deduction. Ensure all loans to shareholders are also repaid to the company within nine months to avoid a 25% tax charge under the 'loan to participator' rules.

Consider deferring remuneration, bonuses or dividends until after 5 April 2016, thereby gaining another 12 months before the income tax is due.

If you are planning to sell your business, make sure that any of the company's non-qualifying (ie. non-trading) income or assets do not exceed 20% of the total aggregate sums. This should ensure your shares qualify for Entrepreneurs' Relief (ER) from Capital Gains Tax (CGT) on an eventual sale. The rate is reduced to 10% on gains of up to £10m, rather than the top 28% CGT rate. You could consider having at least 5% of ordinary shares and voting rights held by your spouse or children (if they work for the company) so that they too qualify for up to £10m ER each. However, beware that ER does not apply to sales to connected parties.

If you are looking to extract cash from your company, you could consider doing so by using the company to purchase its own shares. You could also consider incorporating a single business or partnership to convert future income into a capital gain on a sale, which is currently taxable at only 10, 18 or 28%.

Relief may also be available for work or renovations on land or property under the Business Premises Renovation Allowance, which has now been extended to 2017. For companies only, Contaminated Land Remediation Relief remains available at 100%.

Consider whether or not you will benefit from one of the 29 nationwide Enterprise Zones which include tax breaks and super-fast broadband. Please refer to the Government's website on Enterprise Zones which can be found [here](#) or speak to your usual UHY adviser who can advise you as to ways in which the government can help your business to grow.

Limited Liability Partnerships

Ensure none of the members of the Limited Liability Partnership (LLP) are likely to be treated by HMRC as receiving disguised remuneration, instead of taxing them as self-employed, from the date they join and from 6 April in each subsequent year. If you have company members of the LLP, you will also need to consider the risk of their profits being taxed on the individuals concerned.

Annual Tax on Enveloped Dwellings

Consider extracting the residential property before another year's Annual Tax on Enveloped Dwellings (ATED) charge bites; before the value crosses through the £1m or higher thresholds; and/or before the reduction in the starting threshold of only £500k applies from April 2016. Ensure you file the return on time at the beginning of the year, even if you are entitled to relief.

Capital allowances

Take advantage of tax-deductible allowances by:

- investing in plant and equipment qualifying for the Annual Investment Allowance (AIA) of up to £200,000;
- investing in certified energy saving plant or machinery, including certain low emission cars (100% first year allowances). To keep up-to-date with the list of qualifying items visit: www.eca.gov.uk;
- buying new zero-emissions goods vehicles (100% allowances); and
- ensuring any cars you replace that are used in the business, whether owned or leased, fall within the lower emission CO2 bandings for higher capital allowances or unrestricted leasing allowances.

Research and Development expenditure

Check whether your company qualifies for relief of up to 230% on research and development (R&D) expenditure if it is an SME or an 11% credit for larger companies. Ensure you lodge a claim within the two year time limit.

Employee benefits

Reduce the charges you incur on employees' company car benefits by funding the purchase of their own cars, or replacing vehicles

with one falling into a lower CO2 bracket. You should also ensure that small amounts of private petrol are not provided. Providing zero-emissions cars or low emission cars will also result in beneficial capital allowances for you (see capital allowances above).

Incentivise your employees by establishing an all employee share scheme or an Enterprise Management Incentive (EMI) share option scheme. You can also establish a company pension scheme and make (tax-deductible) contributions to it.

National Insurance

Make sure you have claimed the £2,000 annual employer allowance (£3,000 from April 2016) and have applied the lower NIC rate of 0% for employees under 21. Note, an exemption will also apply to apprentices under 25 with effect from April 2016.

Auto-enrolment

Avoid significant penalties by ensuring you have auto-enrolled your employees into a qualifying pension scheme by the relevant deadline.

Transactions in securities/liquidation

The regulations regarding the gains realised upon the disposal of company shares by individuals are due to be significantly tightened from April 2016, making gains reflecting accumulated income chargeable to income tax rather than CGT, where abuse is perceived by HMRC. Ensure you choose the manner and timing of your disposal carefully. For further information, please see our blog post 'Proposed changes to the treatment of distributions in a liquidation' on our tax blog on our website [here](#).

Corporate investments

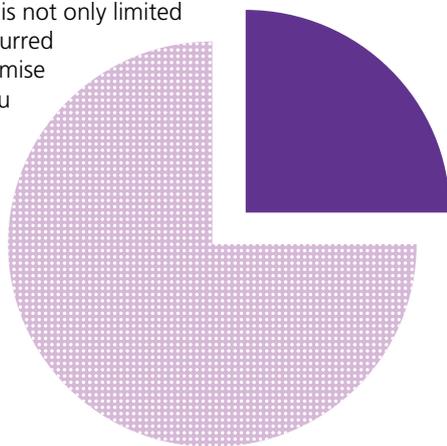
Obtain corporation tax relief for strategic investments in higher risk businesses via community investment tax relief.

Transfer pricing

Larger businesses are now subject to the Diverted Profits Tax at 25%. We have developed an easy reference 'Global transfer pricing guide', which can be found on our website [here](#), or you can ask your usual UHY adviser for a copy. You will need to ensure you review your procedures and pricing to avoid any additional tax.

Losses

Remember, tax planning is not only limited to profits. If you have incurred losses, you may still maximise the reliefs available to you before the deadlines expire. Speak to your usual UHY adviser for advice.



Planning for individuals and families

Managing income

If your total income is close to or over the thresholds below, you should consider planning to avoid further tax charges.

£42,385 – if your income is over this threshold, you will start to pay the higher rate 40% tax in 2015/16.

£100,000 – if your income is in excess of this, you will lose some of your personal tax allowances. They will be lost entirely if your income is over £121,200 (income in this band is effectively taxed at 60%), and if this is your first period of self-assessment the 50% instalment becoming payable can make the additional tax resulting the equivalent of 90%.

£150,000 – if your income is over this threshold, you will attract the 45% additional tax rate in 2015/16. Moreover, your entitlement to claim relief for pension contributions will be restricted pro rata from £40k to £10k if your income is between £150k and £210k.

In each case there are steps that we can help you take to reduce your taxable income, so speak to your UHY adviser for further planning advice.

Investment decisions

Look to take advantage of the increased annual limit (£15,240) for investing in tax-free New Individual Savings Accounts (NISAs) and consider the benefit of a Help to Buy ISA. Premium savings bonds and National Savings Certificates can also be held tax-free. Also, consider investing in Enterprise Investment Schemes (EISs) or Venture Capital Trusts (VCTs) for income tax relief and CGT deferral (higher risk, hence more generous reliefs); or making loans that qualify for community investment tax relief. The Seed EIS includes 50% income tax relief aimed at investment into small start-ups.

Overall, if you are a higher rate taxpayer then you should be looking to invest for capital gains rather than income, as gains are currently taxed at 10, 18 or 28%. Be aware that gains on life insurance bonds and certain offshore funds are taxed as income.

Nevertheless, purchasing a single premium bond will enable you to draw 5% per annum for 20 years, tax-free until maturity. Like all tax-free sources, this can be particularly useful if you are near to the limits mentioned above or, indeed, the age-related allowance income limit.

Pension contribution

Pension contributions of up to £40,000 gross will receive relief at your marginal tax rate. In the case of those with 2015/16 incomes in the range £100,000 to £121,100, this relief will be at 60%. In addition, a limited carry forward also exists for unused allowances from prior

years. Beware of reduced limits if your income exceeds £150k, as well as the reduction in the lifetime allowance to £1m from April 2016.

Children

Children can have tax-free income of up to £10,600 in 2015/16. However, if income of more than £100 is derived from gifts from a living parent then it is taxable on the parent.

Children not eligible for a Child Trust Fund can now hold Junior ISAs (annual limit £4,080) which can receive parental contributions without the above problem. Older teenagers are now permitted to start an ISA, or you could contribute up to £3,600 gross into a pension fund for them, even if they are not working.

Child benefit tax charge

If you are an individual or couple who are caught by the child benefit charge and you have not opted out, you must ensure that you submit a tax return. If the year to 5 April 2016 is the first for which you have this liability and you do not already submit a return annually, you must register for self-assessment by 5 October 2016 at the latest.

If your income or that of your partner increases, you may find yourself drawn into the net or needing to re-assess a decision to continue receiving child benefit. If your income or that of your partner falls, you may again need to re-assess the decisions you have taken and possibly ask for the payment of child benefit to be resumed.

Company cars/fuel benefit

The rates on CO2 bands will increase by a further 2% from 6 April 2016, up to a maximum of 37%. Rather than being taxed on the provision of a company car, consider using a fixed-profit car allowance scheme. Check whether the cost of private fuel for your company car is more than the tax on the benefit and, if not, repay the company in full. Otherwise, the taxable benefit will be £22,100 multiplied by the appropriate percentage, regardless of the extent of your private mileage.

Gift Aid

If you pay tax, Gift Aid donations are an effective way of providing extra value to charities as they can reclaim the basic rate tax deemed to be withheld. If you are a higher rate or additional rate taxpayer the net cost to you will be 75% or 68.75% respectively of the sum you paid.

Capital gains

It makes sense to use your annual (currently £11,100) CGT allowance each year, but the tax benefits of selling and then re-buying the investment could be blocked. You could consider buying it back in an ISA or a Self-Invested Personal Pension (SIPP). Alternatively, transfer assets to your spouse or civil partner before realising a gain to utilise their annual allowance. If realising an existing loss on a holding is unattractive, consider making a worthless asset claim. Even reducing your income to become a basic rate tax payer, as outlined above, could result in less CGT payable.

In certain circumstances losses on shares you have subscribed for in trading companies can be treated as losses for income tax purposes, possibly generating relief at 45% or in some cases at 60%.

Don't forget, by gifting chargeable assets to charity you can not only avoid CGT on the gain arising, but also benefit from Gift Aid relief.

If you have separated from your spouse or civil partner, assets transferred to them before the end of the year of separation (but not thereafter) transfers the CGT base cost to them so your disposal is on a no gain – no loss basis. Until the subsequent decree absolute, further gifts will be taxed at market value as being to a connected party.

Second home

Consider electing to change your principal private residence in order to gain an exemption from CGT, where possible, or even move-to-let which can change your tax profile.

Non-residents and UK property

CGT has been extended to non-residents owning UK residential property with effect from 6 April 2015. Given the other recent tax changes in this area, it is essential that overseas owners of UK property take advice on their position.

Cap on unlimited reliefs

A maximum of £50,000 or 25% (whichever is greater) of your total income will be applied to restrict certain reliefs, eg. qualifying loan interest, trade losses against general income, share loss relief or property loss relief against general income. Reorganise your affairs to avoid this restriction, if possible.

Transferable personal allowance

Married couples or civil partners, where neither party is subject to higher rate tax, should consider electing to transfer part of their personal allowance (max 10%, or £1,010) if they have not been able to make use of it in 2015/16.

Dividend tax allowance

Consider the timing of your dividend income bearing in mind the new annual allowance of £5,000 from April 2016, whilst reflecting upon the generally higher (7.5%) rates charged thereafter.

Buy-to-let landlords

Consider the effect of the reduction of higher rate relief for interest on loans used to acquire buy-to-let property, which will be phased in from April 2017. Also, be conscious that the 10% wear and tear allowance for furnished lettings will cease in April 2016, whilst rent a room relief will increase from £4,250 to £7,000 from that same date.

Beware the 3% Stamp Duty Land Tax (SDLT) increase for acquisitions post 1 April 2016 and the lower threshold (£500k) for the annual tax on enveloped dwellings (ATED) if you occupy a residence through a non-natural vehicle (eg. a company).

Planning with UK or offshore trusts

Nil rate band

Any amount of money can be put into trust up to the nil rate band of £325,000 per individual without incurring an entry tax charge and also sheltering the amount from IHT on death. You can repeat this exercise after seven years. For assets that attract 100% Business or Agricultural Property Relief, far more significant transfers can be considered. CGT on the transfer of assets into trust can typically be deferred via a hold-over election.

Particularly where income is accumulated, trustees of discretionary trusts should consider the impact of the 45% income tax rate and take steps to mitigate this by applying relevant investment and distribution policies.

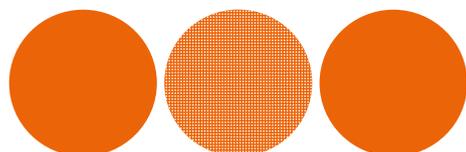
Capital Gains Tax

In certain circumstances, offshore trustees may still be able to make a CGT election to rebase the cost of assets held at 6 April 2008, to the advantage of any beneficiaries resident but not domiciled in the UK.

If you are a trustee, you should generally be planning income and capital distributions with the tax position of the trusts' beneficiaries in mind, in particular those who will be subject to the 45% rate.

Ten year charge

If you are a trustee of a trust subject to ten year anniversary IHT charges, you should speak to your UHY adviser well in advance of the anniversary date to determine steps to minimise the liability.



Planning for foreign domiciliaries

The statutory residence test

Although the statutory residence test has been in existence for nearly three years, providing some certainty to an area of law previously lacking clarity, there are aspects of determining your tax residency that are still far from straightforward. If you are unsure as to whether or not you are UK tax-resident or you anticipate a change in your tax residence, you should have your position reviewed by seeking advice from your usual UHY adviser.

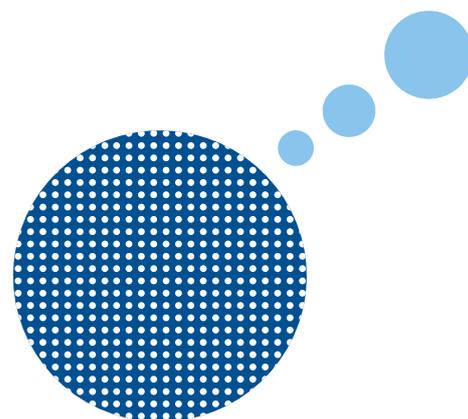
Non-domiciled individuals

If you live in the UK, but consider your permanent home to be elsewhere, and thus believe you are a non-domiciled individual (non-dom), UK rules currently allow you to pay tax on your offshore income only when you bring it into the UK. However, from April 2017, permanent non-dom status will be abolished. From that date, anyone who has been resident in the UK for 15 out of the past 20 years will be considered UK-domiciled for tax purposes. You should review your circumstances and consider your investment options including the use of excluded property, see below.

Remittance basis

If you are resident but not domiciled here in the UK, consider whether it is worth claiming to be taxed on the remittance basis or on worldwide income and gains as it arises. If you are claiming the remittance basis you will, in most cases, lose your personal allowances. If you have been resident in the UK for seven years or more, you will have to pay the £30,000 annual remittance basis charge. For those resident 12 years or more the charge is £60,000, and a higher £90,000 charge is imposed on those resident at least 17 years.

If you are required to pay the charge, you must 'nominate' a certain amount of foreign income or gains and take care never to remit it to the UK. Consider opening a separate overseas bank account with enough capital to generate at least £1 of interest in the year, and nominate this.



By exchanging assets with your spouse or civil partner only one of you need pay the remittance basis charge.

Segregate foreign capital, income and capital gains etc. into separate bank accounts to maximise control over the tax treatment of remittances.

Before coming to the UK, establish a reserve of capital from which tax-free remittances can be made once you are resident and/or establish an offshore settlement to ring-fence income or gains.

Ensure that payments on an offshore mortgage on UK property are not deemed to be taxable remittances under the new rules.

Utilise your remittance basis charge or other tax paid when you make Gift Aid payments.

Qualifying investments in certain private companies have been exempt from taxation as remittances, but beware the various time limits applicable.

Excluded property

If you are a non-domiciled individual you should consider establishing an excluded property trust before you become 'deemed domiciled' (ie. if you were UK resident in 17 or more of the last 20 tax years) to shelter assets from IHT.

Estate and inheritance tax planning

Do you have an effective Will?

Above all else, ensure that you have a valid Will that accurately reflects your wishes and seeks to put them into effect in a tax-efficient manner. Consider giving the survivor quick access to funds post death by the use of a joint account or investment.

Take advice on your IHT exposure (and that of elderly relatives) and the options available.

Life-time giving

Consider whether you are in a position to make gifts to a younger generation, either directly or via a trust, and take advantage of the exemption for regular gifts from your income.

How are you planning to provide for and protect vulnerable family members? Remember, trusts remain a valuable and flexible tool in these circumstances with any tax savings being a bonus. Make use of the £3,000 annual IHT exemption and gift reliefs.

If you wish to make significant gifts to charity either during your lifetime or on death, take advice on how to do so tax-efficiently.

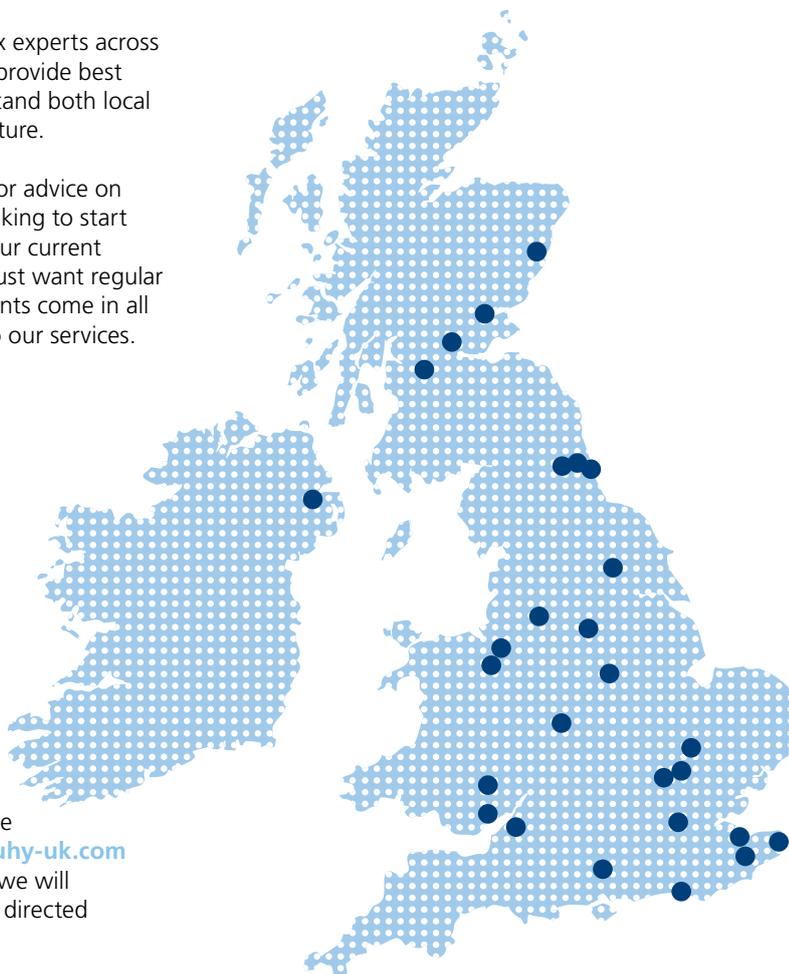
Take out term life assurance to cover IHT on large gifts prior to your death.

Parents and grandparents can pay up to £3,600 gross per annum into a stakeholder pension scheme for their minor children, with each child's fund reclaiming basic rate tax (but no higher rate relief for the contributor).

Combining national expertise with a tailored local service

Our UHY Hacker Young tax experts across our 27 offices nationwide provide best advice because we understand both local needs and the national picture.

Whether you are looking for advice on your personal finances, looking to start a new business, expand your current business interests, or you just want regular compliance advice, our clients come in all shapes and sizes and so do our services.



For further information or to arrange a meeting with your local tax expert, please contact us at enquiries@uhy-uk.com or on 020 7216 4600 and we will ensure that your enquiry is directed to your most relevant local expert.

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