UHY Hacker Young
Chartered Accountants

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Tax Update

Pre Budget and year end tax planning

"Be aware, many of these actions are time sensitive, so act now."

With a general election on 7 May and the dissolution of Parliament on 30 March it was little surprise the 2014 Autumn Statement was more detailed than usual and significant tranches of draft legislation have already been published to aid the process of the Finance Bill 2015.

This year's Budget announcement is set for 18 March so there will only be a few weeks for the Bill to be processed into an Act, before Parliament is dissolved for the election. Many expect a 'give away' speech, but no doubt there will be a raft of further anti-avoidance measures. Our specialist tax partners from around the UK will be watching the announcement and will be providing live commentary on the issues outlined through our social media platforms on **Twitter** and **LinkedIn**. Follow us now in order to pick up our commentary on the day.

Yet again a record number of self-assessment return filings were made on Christmas Day 2014, but no doubt many taxpayers will still be burdened by a late filing penalty. 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 act now. 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 and we advise that you 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 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 2014/15 45% income tax rate applies.

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 if you can afford to pay more than the current annual maximum contribution of £40,000.

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 2015, 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 from Capital Gains Tax (CGT) on an eventual sale. The rate is reduced to 10% on gains of up to £10 million, 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 £10 million Entrepreneurs' Relief each.

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, 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 (now 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 24 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 outline the 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. 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 residential property from corporate investment vehicles either before another year's Annual Tax on Enveloped Dwellings (ATED) charge bites or before the value crosses through the two million or higher thresholds. Ensure you file the return on time 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 £500,000;
- 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);
- ensuring any cars you replace that are used in the business, whether owned or leased, fall within the lower emission CO_2 bandings for higher capital allowances or unrestricted leasing allowances; and
- checking whether, as a company, you qualify for relief of up to 225% on research and development expenditure if you are an SME or a 10% credit for large companies. Ensure you lodge a claim within the two year time limit.
  NB: These rates increase to 230% and 11% respectively from 1 April 2015.

Employee benefits

Reduce the charges you incur on employees' company car benefits by funding the purchase of their own cars. You should also ensure that small amounts of private petrol are not provided. Zero-emissions cars and vans will have 0% benefit in kind for employees until 5 April 2015 (and beneficial capital allowances for you).

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.

Corporate investments

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

Losses

Remember, tax planning is not only limited to profits. If you have incurred losses, you may still maximise the relief available to you before the deadlines expire.

Transfer pricing

Larger businesses are expected to be subject to the Diverted Profits Tax at 25% from 1 April 2015. 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.

VAT

For VAT, there is no financial year end so we have sought to highlight some general planning points that you may wish to consider.

Register under the VAT flat rate scheme if your net turnover is £150,000 or less; this may simplify VAT issues for you and, in some cases, result in extra profits. Consider this scheme also where there is commercial property in a company or partnership with little other income. Care needs to be taken, however, if your business receives any exempt income or VAT-free income from overseas customers, as these sources also need to be included when calculating the flat-rate VAT payable.

Other schemes such as Annual Accounting or Cash Accounting may be of benefit to you in smoothing out your cashflow or providing automatic VAT relief for late paying customers, for example.

Partial exemption

If you are partially exempt, your partial exemption year ends on 31 March, 30 April or 31 May depending on your normal VAT quarters. Remember to carry out your annual adjustment and, if the result is an additional VAT refund due to you, this can now be entered on this year end VAT return rather than the next, ie. Q4 rather than Q5 for the year in question. It is also a good time to review your partial exemption method generally to see if the current calculation is working for you or whether an alternative might yield a better result.

Overseas trade

If you trade overseas, there have been many important changes to the VAT rules affecting the supply of goods or services internationally, many of which have helped UK businesses in their VAT accounting (although some have, inevitably, made things more complicated). We recommend a review of your purchase and sale contracts and supply chains to ensure that you are making the best use of the VAT rules and not overpaying VAT or paying it too soon.

Digital supplies

In particular for businesses supplying digital products, web and broadcasting services, a new VAT regime came into force on 1 January 2015. The new regime is causing significant difficulty as many more businesses are finding they fall into the new regime than was originally thought. If you only sell to other businesses then you are not affected, but if there is any possibility that you sell digital products or services direct to final consumers in the EU, you need to consider whether you are affected by the new regime.

VAT review

More generally, there are of course many planning tips for VAT but if we had to choose one to hammer home it would be to take a fresh look at your VAT affairs. There are some very simple ways to ease your VAT cashflow or make the VAT rules work for you. Your financial year end is as good a time as any to action this, as VAT rules change frequently both in the UK and the EU, if you trade there. Contact your usual UHY adviser if you would like a full year end review of your VAT affairs.

Electronic filing

Planning is not always about tax payable, but also ensuring your systems and processes are up-to-date and in place.

You should ensure that your company's corporate tax returns are iXBRL compliant and that your corporation tax is paid electronically.

Virtually all VAT returns and other VAT declarations are now filed and paid electronically, including for all new VAT registrations.

Also look out for electronic VAT registrations and online administrative tasks becoming more widespread, including VAT group registrations, deregistrations, options to tax and uploading of supporting documents and forms.

Charities are also being encouraged to file their repayment claims electronically. However, if you prefer to use the paper claim form, make sure you are using form ChR1.

Although it is welcome that HMRC are entering the digital age, such huge procedural changes inevitably bring their own problems and care is needed when communicating electronically with HMRC.

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.

£41,865 – if your income is over this threshold, you will start to pay higher rate 40% tax in 2014/15.

£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 £120,000 (income in this band is effectively taxed at 60%), and if this is your first period of self-assessment a 50% instalment can make the additional tax payable the equivalent of 90%.

£150,000 – if your income is over this threshold, you will attract the 45% additional tax rate in 2014/15.

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

Investment decisions

You should look to take advantage of the increased annual limits for investing in tax-free New Individual Savings Accounts (NISAs). 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 2014/15 incomes in the range £100,000 to £120,000, this relief will be at 60%). In addition, a limited carry forward also exists for unused allowances from prior years.

Children

Children can have tax-free income of up to £10,000 in 2014/15. 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 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

While the publicity surrounding the introduction of the child benefit tax charge focused on the opportunity to opt out of receiving child benefit before the tax came into effect in January 2013, the issues have by no means gone away. If you are an individual or couple who are caught by the new charge and if you have not opted out, you must ensure that you submit a tax return. If the year to 5 April 2015 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 2015 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

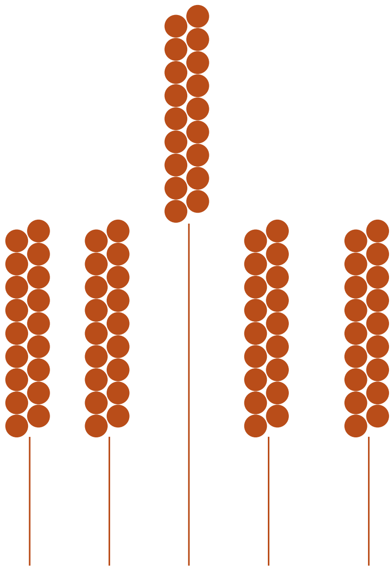
The rates on CO_2 bands will increase by 2% from 6 April 2015 up to a maximum of 37%. Rather than being taxed on the provision of a company car, consider using a fixed-profit car allowance scheme. Check whether the cost of private fuel for your company car is more than the tax on the benefit and, if not, repay the company in full. Otherwise the taxable benefit will be £21,700 x the appropriate percentage, regardless 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 £11,000) CGT allowance each year, but the tax benefits of selling and then re-buying the investment could be blocked. You should 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%.

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.

Second home

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

Non-residents and UK property

CGT will be 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.

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% 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.

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).

Planning for foreign domiciliaries

The statutory residence test

After a long consultation period, the statutory residence test was introduced with effect from 6 April 2013. This makes a very grey area rather more clearly defined. 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.

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 £50,000. From 6 April 2015 the latter is expected to increase to £60,000 and a higher £90,000 charge 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 of 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.

As is always the case with such advice, everybody's individual circumstances vary and so not every aspect discussed here will be of relevance to you.

We have only touched on each of these areas very briefly and would advise that you contact your usual UHY adviser for further advice on the key issues affecting you and to decide on the most appropriate action(s) to take.

UHY Hacker Young Group offices:
England
London UHY Hacker Young
Phone 020 7216 4600
Email london@uhy-uk.com
Birmingham UHY Hacker Young
Phone 0121 233 4799
Email birmingham@uhy-uk.com
Brighton & Hove UHY Hacker Young
Phone 01273 726 445
Email brighton@uhy-uk.com
Bristol UHY Hacker Young
Phone 01454 629 636
Email bristol@uhy-uk.com
Cambridge UHY Hacker Young
Phone 01223 352 823
Email cambridge@uhy-uk.com
Chester UHY Hacker Young
Phone 01244 320 532
Email chester@uhy-uk.com
Jarrow UHY Torgersens
Phone 0191 428 0001
Email info@uhy-torgersens.com
Letchworth UHY Hacker Young
Phone 01462 687 333
Email letchworth@uhy-uk.com
Manchester UHY Hacker Young
Phone 0161 236 6936
Email manchester@uhy-uk.com
Newcastle UHY Torgersens
Phone 0191 230 8100
Email info@uhy-torgersens.com
Nottingham UHY Hacker Young
Phone 0115 959 0900
Email nottingham@uhy-uk.com
Royston UHY Hacker Young
Phone 01763 247 321
Email royston@uhy-uk.com
Sheffield UHY Hacker Young
Phone 0114 262 9280
Email sheffield@uhy-uk.com
Sittingbourne UHY Hacker Young
Phone 01795 475 363
Email sittingbourne@uhy-uk.com
Sunderland UHY Torgersens
Phone 0191 567 8611
Email info@uhy-torgersens.com
Winchester UHY Hacker Young
Phone 01273 726 445
Email winchester@uhy-uk.com
York UHY Calvert Smith
Phone 01904 557 570
Email info@uhy-calvertsmith.com
Scotland
Aberdeen Campbell Dallas
Phone 01224 623 111
Email aberdeen@campbelldallas.co.uk
Glasgow Campbell Dallas
Phone 0141 886 6644
Email glasgow@campbelldallas.co.uk
Perth Campbell Dallas
Phone 01738 441 888
Email perth@campbelldallas.co.uk
Stirling Campbell Dallas
Phone 01786 460 030
Email stirling@campbelldallas.co.uk
Wales
Abergavenny UHY Hacker Young
Phone 01873 852 124
Email abergavenny@uhy-uk.com
Newport UHY Hacker Young
Phone 01633 213 318
Email newport@uhy-uk.com
Wrexham UHY Hacker Young
Phone 01978 351 501
Email wrexham@uhy-uk.com