2014/15

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YEAR END TAX PLANNING

2014/15

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INTRODUCTION

The 5 April 2015 will mark the end of another tax year. A reminder to review your tax affairs: reduce your tax bill by ensuring that you have taken advantage of all available reliefs and exemptions and that you have considered appropriate planning opportunities.

Please see below for a summary of key actions and considerations. Contact us to discuss the opportunities available for you, your family and your business.

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INCOME TAX

Consider transferring income (eg interest or dividends) between you and your spouse or civil partner, to ensure use of all personal allowances and to minimise the income taxed at the higher rates of 40% (£31,865 and above) or 45% (over £150,000).

If your net income for 2014/15 will exceed £120,000, you will not receive a personal allowance so consider mitigating this by making a pension contribution or Gift Aid payment. A full personal allowance is available to those with taxable income of less than £100,000.

CHILD BENEFIT

Child benefit is taxable where chargeable income exceeds £50,000. The tax rate increases in line with income and reaches 100% where income is more than £60,000.

If you are close to these thresholds, pensions and Gift Aid can be used to reduce income and retain the entitlement to tax-free child benefit.

Alternatively you can ask HMRC not to pay child benefit in the first place to avoid having to declare it on your tax return.

TAX-EFFICIENT INVESTMENTS

ISAS

- Income and capital gains in ISAs are tax free
- Up to 30 June 2014 the annual allowance is £11,880 in an investment ISA. Alternatively, you can invest up to £5,940 into a cash ISA, with the remainder up to the total allowance of £11,880 available to invest in an investment ISA.
- After 30 June 2014 the annual allowance is £15,000 all of which can be put into an investment or cash ISA.
- Shares in newer, less established companies which are ineligible to join the main stock markets (FTSE100 or FTSE250) are allowed to be held within an ISA. Now that they are, they become one of the most tax efficient investment vehicles as they also benefit from IHT relief after 2 years.

ENTERPRISE INVESTMENT SCHEME (EIS)

For suitably experienced investors

- Invest up to £1m during 2014/15 and obtain a reduction in your income tax liability of up to 30% of the amount invested.
- To the extent your limit for 2014/15 has not been fully utilised, you can invest in 2015/16 and elect to carry it back and treat as if invested in 2014/15.
- Hold the shares for at least three years to avoid claw back of income tax relief.
- If shares are sold at a loss, income tax relief is usually available on the net loss (after allowing for initial EIS income tax relief).
- Can defer capital gains on other disposals up to amount invested under EIS but without the restrictions or limits relevant for income tax relief.
- Capital gains realised on the disposal of EIS shares are free of CGT.
- IHT business property relief is usually available after two years.
- Dividends on EIS shares remain subject to income tax.

SEED EIS

For suitably experienced investors

- An extended form of EIS for very small businesses.
- Due to the higher risk involved with smaller companies, income tax relief is available at 50% for investments up to £100,000.

VENTURE CAPITAL TRUST (VCT)

For suitably experienced investors

- Invest up to £200,000 during 2014/15 and obtain a reduction in your income tax liability of up to 30% of the amount invested.
- Hold the shares for at least five years to avoid claw back of income tax relief.
- Capital gains realised within a VCT are not taxable.
- Disposals of VCT shares by the original investor are free of CGT.
- Dividends received on qualifying VCT shares are income tax free.

SOCIAL INVESTMENT TAX RELIEF

Taking effect from 6 April 2014, Social Investment Tax Relief (SITR) is a new opportunity for individuals to obtain income tax relief for investments in social enterprises and charities.

QUALIFYING SOCIAL ENTERPRISES

The intention is for this to benefit investments in small social enterprises. Therefore there are rules in place to stop larger organisations from participating.

Briefly "social enterprises" are defined as community interest companies, community benefit societies or charities (whether set up as companies or by trusts). There are a number of qualifying criteria but briefly they cannot have more than 500 employees or gross assets of £15million before the investment.

INCOME TAX RELIEF

For those familiar with the Enterprise Investment Scheme (EIS), the tax rules will operate in a similar way. Income tax relief for an individual is available at 30% of the qualifying investment or debt, up to an annual maximum of £1million. The investment must be held for a minimum of three years, otherwise the tax relief will be withdrawn. Taxpayers can elect to "carry back" the investment and treat it as if it were made in the previous tax year if that is more beneficial, although carry back does not apply for 2014/15 investments.

CAPITAL GAINS TAX (CGT) DEFERRAL AND DISPOSAL RELIEF

There is an opportunity to defer paying capital gains tax on realised gains up to the value of the investments under SITR. The investment must take place one year before or three years after the gain is realised.

Providing income tax relief was claimed on the original investment and is not withdrawn then any subsequent gain on the disposal or redemption of the investment will be tax-free once it has been held for at least three years.

SHARES AND LOANS

The date of an investment for shares will be the date they are issued by the social enterprise to the investor, providing they have been paid for in full beforehand. For qualifying debt, the date is regarded as the date the investor advances the money after having signed an effective loan agreement. Where the investor enters a loan agreement to allow the social enterprise to "draw down" funds as required, the date of the investment will be each time the money is advanced, and not the date of the agreement itself.

COMPLIANCE CERTIFICATE

The social enterprise must use the investment funds for the purposes of their trade within 28 months or the tax relief will be withdrawn. It is responsible for applying for confirmation from HM Revenue & Customs that the investment qualifies. The social enterprise will then provide a Compliance Certificate to the investor allowing them to make any necessary personal tax claims.

This is a new tax relief, although it does of course have many similarities to Enterprise Investment Scheme. If you have any questions, please contact Katharine Arthur.

PENSIONS

You can contribute up to £40,000, inclusive (where applicable) of the 20% tax relief recoverable from HMRC by the pension scheme, and obtain full tax relief at your marginal income tax rate(s).

The £40,000 limit is increased by (broadly) the extent to which contributions (as grossed up) for each of the three previous tax years has fallen below the £50,000 mark.

Unused pension relief can be carried forward three years so any relief from the year ended 5 April 2012 not utilised by the 5th April 2015 will be lost.

For members of defined benefit (including final salary) schemes, whether the £40,000 limit is exceeded is not calculated simply by reference to the contributions made into such schemes. Please contact us if you think that this applies to you.

Significant changes to the UK pensions regime will come into effect from April 2015. Further details are avaliable on our website.

INHERITANCE TAX (IHT)

- Make sure that you have a will and review it periodically to ensure that it still leaves your estate to those you intend, and that it remains tax efficient.
- The IHT annual exemption of £3,000, in aggregate on gifts to individuals, is £6,000 for 2014/15 where you did not use this exemption in 2013/14 and can reduce your estate.
- Separately, gifts of up to £250 to any individual during 2014/15 are also exempt.
- Increased relief for gifts is available if made in consideration of marriage/civil partnership.
- Other gifts to individuals made during your lifetime which are potentially exempt transfers (PETs) will be disregarded when calculating any IHT due on your death once you have survived seven years from the making of the gift.
- Gifts into trust can be considered up to your (unused) nil rate band of £325,000 without creating an IHT charge at lifetime rates, there have been published draft measures which prevent multiple use of the nil rate band.
- Regular gifts out of income which do not impinge on that needed to support your usual standard of living can be IHT exempt, even if made within seven years before death, and should be carefully recorded.
- With appropriate review of investment risks, shares in unquoted trading companies, including those listed on AIM, can qualify for business property relief once held for two years thereby effectively removing their value from your estate.
- If you have been resident for 17 out of the last 20 tax years you will be 'deemed domiciled' for inheritance tax (IHT) purposes and therefore subject to IHT on your worldwide assets. If this applies to you, action can be taken to mitigate the impact.

CAPITAL GAINS TAX (CGT)

The CGT annual exemption for 2014/15 is £11,000 and, if not used by 5 April 2015, cannot be carried forward.

Gains arising in 2014/15 can be deferred through investment in EIS and seed EIS qualifying companies as well as in qualifying social enterprises (see page 4).

KEY DATES

April 2015

April 5
Last day of the tax year

April 6
First day of the new tax year

April 30
Tax returns for 2013/14 not submitted may be subject to a daily penalty of £10 for up to 90 days

July 2015

July 31
Deadline for second Self Assessment payment on account for tax year 2014/15

August 2015

August 1
5% late payment penalty due on 2013/14 tax unpaid

October 2015

October 31
Tax returns for year 2013/14 not submitted may be subject to a further penalty of the greater of 5% of the tax due or £300

October 31
Deadline for paper submission of Self Assessment tax returns for tax year 2014/15

December 2015

December 30
Deadline for online submission of 2014/15 tax return for HMRC to collect tax through PAYE code when tax owed is less that £3,000

January 2016

January 31
Deadline for online submission of 2014/15 tax return

January 31
Deadline for paying balancing payment for 2014/15

January 31
Deadline for first 2015/16 payment on account

We see the
big picture...
and spot the
tiniest detail

Contact us

For advice on year end tax planning, please call a member of our tax team on 020 7969 5500

Named The UK's Mid-Tier Firm Of The Year 2014 At The British Accountancy Awards

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Future events

Pensions - Benefit from the new flexible regime 10 February 2015

For further information on these events please visit www.haysmacintyre.com/events

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