Quay Accounts
Accountancy | Bookkeeping | Payroll
For Your Local Business

YEAR-END TAX GUIDE 2015/16

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Important Information:

This document is for information purposes only and you should not make any decisions based upon its content. The way in which tax charges (or tax relief, as appropriate) are applied depends upon individual circumstances and may be subject to change in the future. ISA and pension eligibility depend upon individual circumstances. You cannot normally take pension benefits until age 55. Whilst considerable care has been taken to ensure that the information contained within this document is accurate and up-to-date, no warranty is given as to the accuracy or completeness of any information.

PERSONAL ALLOWANCES

Basics

Generally the personal allowance is £10,600 with entitlement to a maximum of £10,660 for those born before 6 April 1938. Conditions and restrictions apply to the entitlement over £10,600. Non-savings and savings income above the personal allowance is taxed at rates from 20% to 45%.

Some taxpayers with very modest savings and income may only pay 10%. The basic rate of tax increases to the higher rate for taxable income over £31,785 and to 45% when taxable income exceeds £150,000.

A higher marginal tax rate may be payable between £100,000 and £121,200 when the personal allowance is gradually withdrawn giving an effective marginal rate of 60% in this band for non-savings and savings income.

In some cases, you can transfer £1,060 of your personal allowance to your spouse or civil partner.

Planning

- Is everyone in your family taking full advantage of their personal allowance?
- Are there opportunities to utilise any unused allowances this tax year?
- What can you do to take advantage of marginal tax rates and reduce the slice taxable at a higher rate?

CAPITAL GAINS TAX

Basics

Ordinarily, each person is entitled to make a tax-free gain up to £11,100 (or up to £5,550 for trusts). Thereafter, gains are taxed at a rate that is income dependent. Where taxable income is less than £31,786 the capital gains tax rate for gains up to the spare basic rate band allowance is 18%. Thereafter, this rises to 28%. The rate applicable to a trust is 28%.

For business owners entrepreneurs' relief gives rise to a lower rate of 10% for qualifying gains which provides for a maximum reduction in tax of £1,800,000 (if the gain were £10 million, the current upper limit).

Planning

- What tax can be saved by maximising the advantage of family member tax-free exemptions?
- Should an asset that is going to be sold in the future be transferred into joint names?
- If a gain is going to be realised are there other assets which are standing at a capital loss that can be used to reduce the quantum of your gains?
- If tax is due, are there ways of deferring or rolling over the gain?

INHERITANCE TAX

Basics

Generally, inheritance tax (IHT) is due on death at a rate of 40% if the inheritance threshold of £325,000 is exceeded. The percentage of any unused nil rate band from the first death may be transferred to the surviving spouse, allowing up to double the nil rate band applicable at the date of the second death.

Gifts or transfers made within 7 years of death are also added back into the estate and are liable to IHT, but may be subject to some exemptions as well as a tapered reduction for tax on transfers between years 3 and 7.

Planning

You have worked hard to create your wealth - now make sure you do all you can to minimise any payments that may be due for IHT. Estate planning should start early in life but it is never too late to start.

- Do you have an up-to-date Will that reflects your wishes?
- Are you taking advantage of the available exemptions such as the annual £3,000 exemption, gifts out of income, and gifts on marriage or civil partnership?

PENSION CONTRIBUTIONS

Basics

There are limits to how much can be invested in a pension scheme before a tax charge is payable. To qualify for personal tax relief, a pension contribution must be made by or on behalf of a relevant UK individual.

Tax relief for pension contributions is restricted by reference to net relevant earnings and the annual allowance. The annual allowance is currently £40,000 while there is a lifetime allowance which is currently £1.25 million.

However, it is possible to carry forward any unused allowances from the previous 3 tax years.

Major changes to the annual allowance and lifetime allowance will be introduced from 6 April 2016.

Planning

A pension investment is many peoples' cornerstone as payments into a pension scheme currently attract tax relief of up to a potential maximum of 60%. However, there are undoubtedly other components of retirement planning.

- When might you retire?
- What are your income expectations?
- Is your current plan likely to deliver your expectations?

ISAS

Basics

Individuals who are 18 or over can invest up to £15,240 in an ISA. Withdrawals from an ISA are free of income and capital gains tax, but the value of an ISA will form part of your estate for inheritance tax purposes.

A Junior ISA of up to £4,080 is available for those who are 17 or under.

Help to Buy ISAs, which were launched on 1 December 2015, allow individuals over the age of 16 to save up to £200 into an account per month. Buyers can also deposit a lump sum of up to £1,000 when they set up their account.

The money will earn interest and will also qualify for a 25% bonus (up to £3,000) from the government provided the funds are used to buy a house.

Planning

If you don’t already have an ISA, should you start one this tax year? A further advantage is that ISAs are normally readily accessible (subject to scheme rules).

TAX CREDITS

Basics

Individuals on low incomes may be eligible to claim tax credits or the universal credit (existing claimants will move to universal credit by 2017). The calculations for these benefits involve determining 3 figures: your maximum benefit, your net income and your allowance.

The maximum benefit is the amount you would receive if you had no income at all. As some income is disregarded, it is possible that someone could receive the maximum benefit even though they have a small income.

Net income is usually earnings after tax, national insurance and pension contributions. If you have capital above a threshold this may require a notional income to be added.

The allowances are the maximum amount of income you may earn and still receive the maximum benefit. If your income is above this figure, a percentage of the excess is deducted from the maximum benefit.

Planning

Check to see if you qualify for these benefits as they can be payable for people with fairly high incomes.

As capital can be treated as income that reduces benefit, it may be sensible to give away funds or to spend them upgrading your property (as property value is not regarded as capital).

However, there are rules to counter blatant examples of capital reduction.

The high percentages at which benefit is withdrawn (between 65% and 76% for universal credit) provide much scope for planning.

CORPORATION TAX

Basics

From 1 April 2015 there has been a single rate of corporation tax for all companies: 20%. Corporation tax self-assessment requires companies to work out their own tax liability as part of their return and account for the ‘self-assessed’ liability to corporation tax.

Planning

Taxable profits are typically reduced by employers making pension contributions. Self-invested personal pensions (SIPPs) are popular with many company owner-directors.

Another popular tax reduction strategy is to bring qualifying capital expenditure forward to take advantage of the 100% annual investment allowance. This was £500,000, although reduced to £200,000 from 1 January 2016.

VALUE ADDED TAX

Basics

VAT is chargeable where taxable turnover is in excess of £82,000 in the previous 12 months or you expect this threshold will be exceeded within the next 30 days.

There are schemes which simplify VAT accounting. These include the cash accounting scheme, annual accounting scheme and the flat rate scheme.

Planning

- Would it be appropriate for you to use one of the special schemes?
- Are you claiming any VAT bad debt relief that you are entitled to?
- Are you accounting for VAT on the fuel used for private motoring using the appropriate scale charge?
- Make sure that you don’t reclaim VAT on cars (unless you are a car dealer or taxi company, for example, or provide certain pool or leased cars for employees) or on entertaining UK customers.

BUSINESS DEDUCTIONS

Basics

Business owners are entitled to claim deductions from income for costs which are incurred wholly and exclusively in running the business.

Determining how this rule applies in practice can be a challenge. In most circumstances, a deduction may not be claimed in respect of depreciation, but deductions in the form of capital allowances are available for some expenditure on qualifying capital expenditure.

Planning

- Have you recorded all your costs?
- Directors' bonuses can be claimed so long as they are paid within 9 months after the company year-end but pension contributions must be paid before the year-end to get tax relief in the accounting period.
- Salaries can be made to family members as long as they are justifiable and at commercial rates.
- Other ways of extracting profits include dividends and benefits in kind.

ENTREPRENEURS' RELIEF

Basics

Entrepreneurs' relief provides relief for disposals by smaller business owners. It charges a reduced tax rate of 10% on disposals up to the lifetime limit of £10 million giving rise to a potential tax saving of up to £1.8 million.

The relief is available on material disposals of business assets which covers businesses operated as a sole trader, partnership or through a limited company.

Planning

The liability to capital gains tax is just one aspect of all the planning that goes into the wording of the final contract for sale. Maximising the sale value and looking carefully at the proposed sale structure helps to ensure the liability to capital taxes is not a penny more than absolutely necessary. There are a number of planning opportunities in this area but there are also pitfalls if some shareholders do not qualify for this relief.

PENALTIES

Basics

The penalty regime covers income tax, corporation tax, VAT and IHT.

There are also penalties to cover the notification of starting a business and the filing of returns and accounts at Companies House.

Planning

Miss the first income tax return filing deadline and the next day you are liable for a £100 fine. Leave it for another 3 months and the maximum penalty rises by £10 a day up to a maximum of £900. After 6 months a further £300 or 5% of the tax due, whichever is the higher, is added. In some serious cases the penalty can be even higher than this.

HMRC charges late filing penalties for PAYE, VAT and corporation tax while at Companies House penalty rates range from £150 for a private company filing the accounts not more than 1 month late up to £7,500 for a public company filing accounts more than 6 months late.

Ensure that you know all of your filing and payment requirements and the due date for payment.

CHANGES FROM APRIL 2016

Basics

Planned changes may affect your planning for 2015/16. Some changes from April 2016 include:

Dividend Taxation

Dividend tax credit will be abolished and replaced with a £5,000 dividend tax allowance. Dividend income exceeding the annual allowance will be taxed according to an individual's income tax band. Basic rate taxpayers will pay 7.5%, higher rate 32.5% and additional rate 38.1%.

Personal Savings Allowance

A new allowance to remove tax on up to £1,000 of savings income for basic rate taxpayers and up to £500 for higher rate taxpayers will be introduced.

Pensions

There will be a reduction in the £40,000 annual pension allowance where income, including pension contributions, exceeds £150,000. The annual allowance will reduce by £1 for every £2 of income in excess of £150,000, down to a minimum of £10,000.

Property

The wear and tear allowance on furnished properties will be replaced with a new relief that will allow residential landlords to deduct the actual costs of replacing furnishings.

Rent-a-room relief increases from £4,250 to £7,500.

New rates of stamp duty that are 3% higher than the current bands will be introduced from 1 April 2016 on purchases of additional properties such as buy-to-lets and second homes. Similar changes have been announced to land and buildings transaction tax in Scotland.

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