End of Tax Year Planning Guide 2015/2016

Our year end guide summarises some key tax and financial planning tips which should be considered prior to the end of the tax year on 5 April 2016 or for companies prior to their accounting period end. The planning tips set out in this guide are all statutory reliefs which can be used to assist individuals and businesses.
The starting point in income tax planning is to understand where your income is likely to fall relative to the tax thresholds. For 2015/16, the tax free personal allowance is £10,600 and the next £31,785 of income is then taxed at 20%. Higher rate tax of 40% is charged on income above £42,385 and additional rate tax of 45% is charged on income above £150,000.

INCOME TAX

The personal allowance is reduced by £1 for every £2 of income above £100,000, meaning there is no personal allowance at all where income exceeds £121,200. This also means that income which is in the band £100,000 to £121,200 suffers an effective rate of tax of 60%. Or to put it another way, tax relief at 60% is available on pension contributions and gift aid payments in this income band.

To make the best use of your income tax allowances, income should be generated where possible to fully utilise the personal allowance and basic rate band. This might include carefully planning the timing of dividends from a private company or distributions from a family trust. Married couples and civil partners also have further opportunities for using their allowances and it should not be forgotten that children also have tax free allowances.

In relation to the timing of dividends from private companies, a new rate of tax on dividends will come into effect for dividends received on or after 6 April 2016. From that date a new dividend allowance of £5,000 is brought in meaning that net dividends of up to £5,000 in total in the year are free from income tax. Over £5,000, the rate of dividend tax is 7.5% where you remain a basic rate taxpayer including your dividend, 32.5% where you are already a higher rate taxpayer and 38.1% where your income is already above £150,000. This is a tax rise of 7.5% across the board. Consideration therefore should be given to bringing forward dividends from your company prior to 6 April 2016.

It is important to remember that child benefit gets effectively withdrawn by 1% for every £2 of income earned over £50,000 (taking the highest earner in a household for these purposes) and is reduced to nil once your income reaches £60,000. The effective rate of income tax within the band £50,000 to £60,000 will depend upon, the greater the number of eligible children, the greater the financial impact the reduction in child benefit. Where taxable income falls within this band, mitigating the impact on child benefit by using pension contributions or gift aid is again a consideration.

**Action Point**

Understand your income levels and the relevant bands during the year so you can make choices to ensure your income does not fall within the bands where higher taxation occurs or where child benefit is withdrawn and consider making pension contributions or gift aid payments to obtain better use of tax reliefs. Consider the timing of dividends.

Seeking advice once preparing your tax return post year-end will usually be too late for the year already finished.
**CAPITAL GAINS TAX**

**Use your Annual Exemption**

The annual exemption for 2015/16 is £11,100. This is a ‘use it or lose it’ allowance; it cannot be carried forward to future years. It therefore makes sense to crystallise gains each year to the extent of the annual allowance, if possible.

Note that under the ‘bed and breakfasting’ rule, a gain does not crystallise for tax purposes if you sell shares and repurchase the same shares within 30 days. However, it is possible to repurchase the same shares through an ISA or alternatively, a married couple can arrange for one partner to sell shares in the open market, and the other partner to buy the same number of shares.

**Rates of Tax**

The rate of Capital Gains Tax (CGT) is still 18% where taxable gains plus taxable income are less than £31,785. Any excess gains are taxed at 28%. Where Entrepreneurs’ Relief applies, the rate is 10% (see below).

**Crystallise and Use Capital Losses**

Capital losses may be offset against capital gains in the same tax year. Unused losses may then be carried forward indefinitely and offset against future gains. A formal claim is required. The claim must be submitted to HMRC within four years of the end of the tax year of the loss, otherwise it will be time-barred. Hence, claims must be made by 5 April 2016 in respect of 2011/12 losses, if claims have not already been filed.

When an asset has become valueless or worth next to nothing, it may be possible to make a “negligible value claim” in order to crystallise a capital loss. The claim can be related back up to two tax years in certain circumstances, allowing the loss to be offset against gains made in earlier years.

**Can your Capital Gains Qualify For Entrepreneurs’ Relief (ER)?**

Capital gains tax is charged at 10% where ER applies, subject to a lifetime limit of gains totalling £10m. ER applies to the sale of a business carried on as a sole trader or partnership, or to the sale of shares in an unquoted company and in certain circumstances to personally held assets that have been used by a partnership in which you are a partner or a company that you control.

Entitlement to ER requires a number of conditions to be met for a continuous period of twelve months up to the date when the disposal is made, so early advice should be taken to ensure that the gain qualifies for relief. With effect from 4 December 2014, ER does not apply to the sale of internally generated goodwill on the incorporation of a sole trader or partnership.

The Government realises that ER is proving to be a more significant cost to the Exchequer than it had anticipated. Therefore we expect the rules to be tightened up in the next Budget in March 2016. We do not know what those changes will be and so it would seem sensible to bring forward any disposals before then if you plan to sell in the very near future.

**Determine your Main Residence**

The gain on your principal private residence is exempt from capital gains tax. If you have more than one private residence, your ‘main’ residence will normally be, by default, the one in which you spend the greatest time. But it is also possible to determine that matter by nominating one of them as your main residence. This requires careful planning, since the flip side of a gain on one residence being treated as exempt is that a gain on the other residence may become chargeable. Written nominations must be submitted to HMRC within 24 months of any change in residences becoming available.

The main residence exemption is not available on development projects, where a property is acquired with the overriding motive of selling at a profit, particularly where improvement works are carried out.

From April 2015, further restrictions apply to the ability to nominate your main residence. These mainly affect non-residents with a UK property, and UK residents with a property abroad.

**Key Changes for Landlords And Second Property Owners**

Key changes are afoot for landlords who rent out residential property from April 2017. Where the landlord has a mortgage on that property and is a higher rate taxpayer, they will enjoy less tax relief on the interest costs leading to higher income tax charges. Tax relief will be given at the basic rate only. This change is being phased in over 4 years from April 2017.

From April 2016, a person purchasing a buy-to-let, a second home or holiday home will pay 3% more stamp duty. Further details on changes are provided on page 10.

**Action Point**

ER rules can easily be broken so if you are disposing of an asset and ER may apply, please seek advice as soon as possible. Some of the conditions need to be met for twelve months prior to the disposal so the earlier you seek advice, the more chance of ER being available. Consider bringing forward disposals to before March 2016.

**Determine your Main Residence**

The gain on your principal private residence is exempt from capital gains tax. If you have more than one private residence, your ‘main’ residence will normally be, by default, the one in which you spend the greatest time. But it is also possible to determine that matter by nominating one of them as your main residence. This requires careful planning, since the flip side of a gain on one residence being treated as exempt is that a gain on the other residence may become chargeable. Written nominations must be submitted to HMRC within 24 months of any change in residences becoming available.

The main residence exemption is not available on development projects, where a property is acquired with the overriding motive of selling at a profit, particularly where improvement works are carried out.

From April 2015, further restrictions apply to the ability to nominate your main residence. These mainly affect non-residents with a UK property, and UK residents with a property abroad.

**Key Changes for Landlords And Second Property Owners**

Key changes are afoot for landlords who rent out residential property from April 2017. Where the landlord has a mortgage on that property and is a higher rate taxpayer, they will enjoy less tax relief on the interest costs leading to higher income tax charges. Tax relief will be given at the basic rate only. This change is being phased in over 4 years from April 2017.

From April 2016, a person purchasing a buy-to-let, a second home or holiday home will pay 3% more stamp duty.

Further details on changes are provided on page 10.

**Action Point**

Consider the above changes carefully. Perhaps bring forward purchases to before April 2016.
UTILISE INDIVIDUAL SAVINGS ACCOUNTS (ISAS)
ISAs can be an excellent investment for all taxpayers and the maximum allowance for 2015/16 is £15,240. The income tax exemptions on ISAs will be now be preserved on death, where one spouse or civil partner leaves it to the other. They remain chargeable to Inheritance Tax (IHT), however.

CONSIDER INVESTING IN ENTERPRISE INVESTMENT SCHEME (EIS) AND SEED EIS (SEIS) SHARES
Tax relief is available where you subscribe for shares qualifying for EIS or SEIS relief. This is the Government's way of incentivising you to invest capital in small and medium sized trading companies.

Under the EIS scheme, your tax liability for the year may be reduced by up to 30% of the sum invested (up to a maximum of £1m invested in the year). In addition, capital gains from disposals in the previous 36 months or following 12 months may be reinvested into EIS shares, resulting in a deferral of the original gain.

The Seed EIS scheme offers another form of reinvestment relief for investors who subscribe for shares in smaller start-up companies which have been going for less than 2 years. For 2015/16, the maximum qualifying investment remains at £100,000.

Under SEIS, income tax relief is given at the rate of 50% of the sum invested, and relief may be given against tax in 2015/16 or 2014/15.

A common feature with both EIS and Seed EIS is that shares are normally exempt from CGT after 3 years and IHT after 2 years, subject to detailed conditions being met.

A number of professionally managed EIS and SEIS investment funds exist which invest in a broad range of EIS and SEIS companies on behalf of investors. Whilst such funds should allow for risk management through the spreading of your investment between different companies, it must be remembered that EIS and SEIS investments will more likely than not be viewed with them a high degree of risk.

The Government has very recently changed the rules concerning the age of companies which can qualify under EIS. Broadly speaking, companies which are more than 7 years old may not now qualify.

VENTURE CAPITAL TRUSTS (VCT)
VCTs are specialist tax incentivised investments that enable individuals to invest indirectly in a range of small higher risk trading companies and securities. VCTs are companies in their own right and, like investment trusts, their shares trade on the London Stock Exchange.

Shares in qualifying VCTs offer the following tax incentives:
- Up front income tax relief at 30% of the amount subscribed, subject to a maximum investment of £200,000 per tax year. The investment must be held for a minimum of 5 years in order to retain the income tax relief. Note that income tax relief on the purchase of VCT shares is available only where new shares are subscribed, and not to shares acquired from another shareholder.
- Dividends received on VCT shares are income tax free (including shares acquired from another holder).
- CGT exemption on the VCT shares (including shares acquired from another holder).

Note that gains from other assets cannot be rolled into purchases of VCT shares.

INHERITANCE TAX
Plan for the freeze in Inheritance Tax (IHT) thresholds
The IHT nil rate band is currently frozen at £325,000 until 5 April 2021. If someone’s estate is worth more than £325,000, IHT is generally due at 40% on the excess which is a significant cost. As part of a person’s on-going Inheritance Tax planning, full use should be made of available exemptions. The exemptions are relatively small, but, over time the effect can be substantial:

- Annual Exemption – An amount of up to £3,000 can be given away each tax year and, if unused in a year, it can be carried forward for one year and utilised in that later year.
- Small Gifts Exemption – You can give up to £250 to as many people as you wish each tax year.
- Regular gifts out of Income – If your income regularly exceeds your expenditure, you can give away the excess. To gain this relief, the gifts must be part of a settled pattern of giving or there must be evidence of the intention to make these gifts. It may be necessary to ensure that you have evidence that demonstrates that the gifts have been made out of your post tax income.
- Lifetime Giving – A person may also consider making lifetime gifts in excess of the above exemptions. A person must survive such a gift by 7 years for it to fall out of their estates entirely, and the donor must not benefit from the assets once they are gifted. The gifts might be absolute gifts to family members, or they could be gifts into trust. Gifts into trust can give rise to an immediate charge to IHT at the rate of 20%, therefore transfers to trust should generally be limited to the available nil rate band. Trusts can be very beneficial, but specialist advice is needed.
• IHT Efficient Investments – Another alternative can be to place funds into IHT efficient investments, for example, shares in qualifying AIM listed companies. Such investments may benefit from business property relief and are therefore relieved from Inheritance Tax after they have been owned for two years. Appropriate investment advice would be needed when considering such planning, as the commercial risk and the tax benefits need to be discussed.

The general inheritance tax free band on the main home is increased from £325,000 to £500,000 from April 2020. This additional allowance starts in April 2017 at £100,000 to bring the allowance to £425,000 and it will increase each year. From April 2017 a married couple can potentially transfer a home worth up to £850,000 to their children free of inheritance tax.

**Action Point**

There are possibilities to ensure estates are reduced during one's lifetime to prevent a large IHT liability on death. As part of the planning, your advisor would need to consider all sources of wealth and take into account many other factors. The building up of a personal balance sheet and establishing income receipts and living cost requirements can bring planning possibilities into focus.

Early action can often lead to a large part of one's estate being shielded from IHT.

**CHARITABLE GIVING**

If a higher rate or additional rate taxpayer makes a Gift Aid donation, further tax relief is available to the donor over and above the tax relief claimed by the charity. A Gift Aid donation of £80 is worth £100 to the charity. A higher rate taxpayer will qualify for further tax relief of £20 so that the net cost of the donation is only £60. For an additional rate taxpayer, the further tax relief is worth £25, so that the net cost of the donation is only £55.

You should keep a record of Gift Aid donations made in the year. Please remember that if you are not a UK taxpayer, you cannot make Gift Aid donations.

As an alternative to or in combination with Gift Aid donations during your lifetime, if you are in a position to leave at least 10% of your estate on death to charity, the rate of inheritance tax charged on the balance of your estate is reduced from 40% to 36%. Whilst this appears quite modest, the savings can be significant: if one takes £1 million on which inheritance tax is due at 40%, the inheritance which will remain net of tax is £600,000. If instead £100,000 was given to charity, only £900,000 is left which is taxed at 36% and the net estate become £576,000. Therefore £100,000 is passed to charity at a cost to the family of only £24,000.

**RESIDENT BUT NON-UK DOMICILED INDIVIDUALS**

From April 2017 the Government intends to make non-domiciled individuals UK domiciled for all UK taxes. At present, non UK Domiciled individuals who are UK resident pay UK income tax on the income they remit to the UK rather than on income which is earned around the world.

Alternatively the individual can pay a remittance basis charge. From April 2017, those individuals will suffer UK income tax on their worldwide income whether remitted to the UK or not. It will be important for these individuals to plan for this change.

**PENSIONS**

**Pensions: Changes to Annual Allowance & Lifetime Allowance**

**Change From 6 April 2016:**

The lifetime allowance is being reduced from £1.25 million down to £1 million. There will be protection for those with pension savings already in excess of £1 million.

For a high income taxpayer, the annual allowance can be tapered down from £40,000 to as little as £10,000. The allowance is reduced by £1 for every £2 that a person’s income and pension contributions exceed £150,000 for a tax year, down to a minimum of £10,000. In addition, a person’s taxable income has to be more than £110,000 to be affected by these rules. The new rules apply to both defined contribution schemes and defined benefit schemes.

In order to bring in the new rules for the tapering of the annual allowance, the rules for pension input periods have to be amended. A pension input period is the period by which you assess if the annual allowance has been breached. Due to a need to align the pension input periods with tax years, as a one off, taxpayers have two pension input periods in 2015/16. So, for persons who already have a pension policy in place and who are not flexibly accessing their pension savings, they have a total annual allowance of £80,000, of which £40,000 relates to the period from 9 July 2015 to 5 April 2016.

**Example 1:**
John has income of £120,000 for 2016/17 and by using the carry forward facility; he makes a pension contribution of £60,000. As a consequence, his annual allowance for 2016/17 is reduced from £40,000 to £25,000.
Example 2:
As per example 1, except that John’s income is only £109,000. The aggregate of John’s income and pension contributions is more than £150,000, but as his income is less than £110,000, the annual allowance is not tapered at all.

Example 3:
In 2014/15, John has a pension input period of the year to 31 October 2014. Due to the transitional rules in 2015/16, he has a pension input period from 1 November 2014 to 8 July 2015 and a further pension input period from 9 July 2015 to 5 April 2016. John has an annual allowance of £80,000 for 2015/16 of which £40,000 relates to the period from 9 July 2015 to 5 April 2016.

What should you do?
Individuals should arrange for a review of their pension savings with their financial advisor to consider if they could be in danger of exceeding the new lifetime allowance of £1 million, and in particular whether they might need to take advantage of the new protection opportunity.

For a high income individual, where their annual allowance will be reduced by the taper provisions, then if the timing of some of the income is discretionary, it could be beneficial to bring forward such income to before 6 April 2016. Given the proposed increase in the tax payable on dividends from 6 April 2016, such planning may bring a double benefit.

The £80,000 annual allowance for pension contributions is a one-off opportunity and so, taking account of all of their circumstances, taxpayers should consider making use of it. Any such discussion should be in conjunction with your financial advisor.

What pension changes were made from 6 April 2015?
On 6 April 2015 pension rules changed significantly. The new rules gave individuals unprecedented freedom over how to benefit from their personal pensions at retirement, as well as the chance to pass more of their remaining pension to loved ones on death.

Pension investors aged at least 55 (rising to 57 from 2028) are able to access their pension fund as a lump sum if they wish.

The 2015 changes represented the biggest shake-up to UK pensions ever and reflect the Government’s vision for a more flexible regime giving individuals more choice, control and responsibility over how they access their pension savings.

The main changes are:

The removal of income limits from defined contribution/money purchase pensions.
Retirement income limits were removed from 6 April 2015 for defined contribution/money purchase pensions. So members of pension age can take what they want from their money purchase pension pot, when they want it.

There are two main bases for accessing money purchase funds flexibly:
- Flexi-access drawdown - new income drawdown funds will be under flexi-access drawdown. You can draw any amount, over whatever period you choose. You can take up to 25% of the fund as tax free cash when you designate new funds for drawdown and any income drawn is then taxable as pension income at your marginal income tax rate.
- Uncrystallised funds pension lump sums (UFPLS) - you can take a single or series of lump sums from your uncrystallised funds, without actually having to designate them for drawdown first. 25% of the UFPLS is paid tax free, with the balance taxable as pension income at your marginal income tax rate.

The key, of course, is to use the new flexibility sensibly to meet financial needs, tax-efficiently. The new freedom brings temptation and added responsibility as there is a danger that some pension savers will or have already drawn their pension savings at the first opportunity. This could see them hit with an avoidable income tax bill which is far larger than it would have otherwise been had they taken what they needed, when they needed it.

And, of course, there is a danger that some may fritter away their pension without any constraints to hold them back. Equally, there will be those who will be tempted to “stick it all in the bank” - but they do so at their peril as the long term effects of inflation may erode their fund’s spending power.

There are some circumstances where the new flexibility is not available:
- Existing annuities or scheme pensions: Those who have locked into a lifetime income using annuities, or scheme pensions, cannot currently undo them. However, the Government is consulting on making this a possibility.

The Government has unveiled details of a new secondary annuities market to be introduced in April 2017. While savers will be able to cash in their entire annuity under these proposals, they will not be allowed to assign slices of their guaranteed retirement income. The Treasury says this would have been “highly complex and create additional costs”.

- Defined benefit pensions: The new income flexibility is not available for defined benefit pensions. However, those with AVC pots can access flexibility, either within the defined benefit scheme or by transfer to a new pension.
Scheme/product restrictions: What we have been finding since the changes came into effect earlier this year is the fact that there is no obligation for every money purchase pension scheme or provider to offer the new income flexibility. For example, some pension schemes may not have systems in place to facilitate money purchase flexibility. So it may be necessary to transfer benefits to a pension scheme that is able to facilitate this.

Individuals have a right to transfer to a new scheme or provider to access money purchase flexibility where their current scheme does not offer it. In particular, restrictions have been lifted so that members of occupational schemes will now be able to transfer at any point up to their scheme’s normal pension age. However, it is not possible to transfer defined benefit rights from unfunded public service schemes to access money purchase flexibility.

What changes were made to pension death benefits from 6 April 2015?
Radical changes have been made to the pension death benefits rules from defined contribution/money purchase pensions.

The new rules apply to payments which start on or after 6 April 2015 rather than the date of death. So where payment of death benefits has been delayed until after 5 April 2015, the beneficiaries can take advantage of the new rules. But if a dependant’s pension started before 6 April 2015, the payments will continue to be taxable.

Death before 75 - funds in flexible defined contribution schemes (whether crystallised or uncrystallised) can normally be taken tax free, either as pension payments or lump sums. This has meant a cut in the potential tax charge on death from 55% to zero overnight for those in drawdown, or with annuity protection.

Lump sums: To be tax free, lump sums have to be paid within two years of the deceased’s date of death.

Death after 75 - defined contribution pension funds taken in instalments will be taxed at the beneficiary’s marginal rate as they draw income from it. Similarly, beneficiaries’ annuities will be taxed at their marginal rate.

Alternatively, a lump sum can be paid less a 45% tax charge (this will become their marginal rate from 2016/17).

Inheritability of pension funds & nominations
For those in a pension scheme which allows drawdown, the ability to pass on pension wealth doesn’t stop after the original member’s death. A beneficiary can nominate their own successor who will take over the drawdown fund following their death.

Each time a drawdown fund is inherited, the tax position is reset, depending on the age at death of the last drawdown account holder.

Example - John dies at age 81 and had nominated his son Tom to receive his flexi-access drawdown fund. As John died after age 75, Tom is taxable at his marginal rate on any income withdrawals.

Tom sadly dies at age 70 and had nominated his daughter Grace to receive the remaining drawdown fund. She can take withdrawals from the drawdown fund tax free, as Tom died before 75.

Reviewing your retirement plans
Flexibility - For those with a modern, flexible defined contribution pensions, freedom and choice has become a reality from 6 April 2015. Since the changes were introduced we have dealt with many clients who have pension schemes that do not allow individuals to access pension freedoms.

Summary
In the past a common objection to pension investment has been the lack of flexibility; this has now been removed, as not only are pension benefits allowed to be taken on a flexible basis but also the accumulated pension wealth can be potentially cascaded down the generations, whilst continuing to enjoy the tax benefits that the pension wrapper provides.

Action
Check your pension for flexibility as only modern, flexible pensions will support the new freedoms fully. If not you may have to consider moving them to a pension that does. It's more important than ever for individuals to nominate who they want to receive death benefits, and to regularly review this nomination.

Flexibility is not just about retirement, it is about keeping your options open in every eventuality. Do not risk dying with the wrong pension, where inheritable drawdown is not available.
CORPORATION TAX RATES

The UK has a highly competitive corporate tax system, and has deliberately sought to be one of the most competitive amongst the G20 nations.

Corporation tax rates are currently 20% (from April 2015) and there is no longer a difference between “main” and “small company” rates of tax, as historically was the case.

The rates of Corporation Tax are scheduled to drop further in coming years, so making the UK even more competitive as a base for companies to carry out their trading activities.

With the exception of Northern Ireland, the UK’s Corporation Tax Rates are scheduled to be as follows:

- From 1 April 2015 – 31 March 2017 20%
- From 1 April 2017 – 31 March 2020 19%
- From 1 April 2020 18%

The alignment of rates of Corporate Tax into one single rate from 1 April 2015 makes the concept of associated companies less important. However, the linking of associated companies will still be relevant for the purposes of establishing the timing of payments of corporation tax liabilities: whether a company should make quarterly payments of its corporation tax liability and also when considering the availability of the £2,000 Employment Allowance (which rises to £3,000 from April 2016).

The Employment Allowance is only given once to two or more associated companies.

Northern Ireland has recently been granted the power to set a Corporation Tax rate for companies based in that region of the United Kingdom which is lower than the rest of the United Kingdom.

From April 2017, the profits of companies who are located in Northern Ireland (and Northern Irish branches of companies located elsewhere) are expected to be taxed at a rate of 12.5%.

This brings Northern Ireland into line with the Republic of Ireland and UK based companies may want to consider Northern Ireland as a location for business activities as a consequence.

INCOME AND EXPENDITURE

The general tax planning strategy for business owners should normally be to defer income and make full use of all available allowances.

This strategy has become increasingly relevant over the last few years as Corporation Tax rates have steadily reduced (and are scheduled to do so until 2020).

There are several ways in which a company can maximise deductions for expenses in an accounting period. Planned expenditure, for example on repairs, could be brought forward, or, in some instances, a provision could be made in the
accounts for future costs. In general, tax relief is allowed for provisions made in accordance with GAAP. The following items merit particular review:

- **Bad debts** - The debtors’ ledger should be reviewed in detail so that provisions and/or impairments can be made for bad debtors. It is important that evidence is available where provision is to be made that the circumstances under which the debt have proven to be bad were in existence as at the balance sheet date.

- **Stock** - The company can make a specific provision against slow moving, damaged or obsolete stock, but a general provision is not allowed against tax. The company might be able to change the way it values stock, but great care needs to be taken.

- **Bonuses** - It might be possible to make provision for bonuses and/or other remuneration to be paid in the following year, thus advancing tax relief. For such a provision to be allowable, it must be possible to establish that the liability to make the payment existed at the balance sheet date and that the payments must then be paid within nine months of the end of the period, otherwise they will be deductible only in the accounting period in which they are paid.

- **Pension contributions** - If the company has a registered occupational pension scheme, tax relief is given for contributions actually paid in the year, rather than the amounts provided for in the accounts. Where pension contributions are intended to produce a tax deduction in line with the accounting treatment, then it is essential the contributions have been paid in cash before the end of the accounting period.

### Action Point

You can consider opportunities to defer income or accelerate expenditure.

You should take further advice before implementing any of these strategies.

As with all tax advice and specific opportunities, there has to be a balance between the commercial objectives of the company and any implementation of the issues mentioned above. This should be discussed with the tax department who can help you to ensure that any actions are both technically sound and commercially savvy.

### CAPITAL ALLOWANCES

The 100% Annual Investment Allowance (AIA) increased to £500,000 from April 2014 for a temporary period ending on 31st December 2015. From 1 January 2016 the AIA has reduced back to £200,000 a year. For expenditure incurred after 31 December 2015, the reduction in the AIA will therefore extend the period over which tax relief is given for qualifying assets which were acquired after 31 December 2015.

The number of associated companies can also impact upon the amount of expenditure which can benefit from AIA (for example, for companies in a group, only one AIA is given and should be allocated across the group in the most tax efficient manner).

Remember that certain new plant items can qualify for an immediate 100% deduction, in addition to the AIA available. In general these items need to be included on government lists of approved plant or technology items and they would include:

- Energy efficient plant and equipment and water technology
- Low emission (currently less than 95g/km of CO2) or electronically propelled cars (see Green Cars, below)
- Zero emission goods vehicles

There is also a 100% writing down allowance available for fixed assets, including plant & machinery, acquired for the purposes of carrying out Research & Development (R&D) and these allowances should be considered by any company who makes a claim for R&D Tax Relief to ascertain if it can accelerate tax relief compared to the AIA. This will become increasingly important as the AIA reduces from 1 January 2016.

In addition, around the UK there are a range of Enterprise Zones (EZ’s). Companies who are located in those EZ’s and who invest in plant and machinery used in their trade can also claim 100% writing down allowances on those assets.

### Capital Allowances and Buildings

When buying or selling a commercial property, whether for use in your own business or for letting to a third party for use in their business, it is now more important than ever to consider capital allowances in advance of the transaction.

All properties will contain items eligible for capital allowances, for example the electrical, plumbing and heating systems, air conditioning and lifts.

Legislation in this area has changed in recent years and since April 2014 allowances for the purchaser can be lost forever if appropriate steps are not taken to identify and claim amounts of qualifying expenditure prior to the sale/purchase.
In particular, if a building which has previously been used for a commercial activity is acquired (i.e. a ‘second hand building’), since April 2014 it has been a requirement that the vendor must have made a claim for capital allowances on the qualifying elements of the building for those qualifying elements to then be capable of supporting a claim for tax relief by the purchaser.

This means that any purchaser of a ‘second hand building’ will need to formally agree with the vendor the amount of qualifying expenditure which will be acquired by the purchaser if the purchaser expects to benefit from tax relief on those assets.

For refurbishment of property and renovation of disused properties, there are still opportunities to classify items as repairs and renewals, or to claim Business Premises Renovation Allowances. Therefore, tax relief on property renovation or refurbishment can be an area where tax relief can be optimised but remain an area where reliefs are often overlooked.

**Business rates (Non Domestic Rates)**

Between April 2014 and March 2016 business rates reliefs remain in force for “reoccupation” of certain properties and also for properties used for the purposes of “retail” activities (which can include for example pubs, restaurants, cafes and more general retail premises such as shops and showrooms).

The reliefs attach to the property and it is the ratepayer who is entitled to claim. Businesses that have recently brought properties back into use, or occupy properties for “retail” purposes should check their council are applying the business rates reliefs correctly.

**Action Point**

For capital allowances, business rates and purchase/sale of a property generally, the earlier tax advice is sought, the more planning that can take place to ensure the best treatment is obtained. When dealing with the purchase or sale of a commercial property, advice should be obtained at the onset of any discussions to ensure opportunities to claim tax reliefs are considered in full.

**PROPERTY INVESTMENT**

The Government have recently introduced a range of new restrictions on tax reliefs for investors in Buy to Let (BTL) properties which start to impact from April 2016.

1) Relief for mortgage/loan interest for BTL investors

Currently individual landlords receive tax relief at their highest rate of income tax on all of the interest they pay to finance their letting business.

From April 2017 the amount of interest that will be eligible for tax relief at the higher and additional rate (40 & 45%) will be restricted to the following:

- 75% of the interest paid in 2017/18
- 50% of the interest paid in 2018/19
- 25% of the interest paid in 2019/20

The balance of the interest will be eligible for 20% tax relief in each case. From 6 April 2020, only basic rate tax relief will be available for interest for higher or additional rate tax payers.

2) Relief for furniture and fittings

At present, a wear and tear allowance is given at 10% of the net rents received in respect of fully furnished let properties. This will be abolished from 6 April 2016. In its place all landlords of residential property (whether fully furnished or not) will only be able to claim the actual cost of replacing furnishings.

3) Additional SDLT and LBTT from April 2016

Higher rates of SDLT (and LBTT in Scotland) will be charged on purchases of additional residential properties (above £40,000), such as buy to let properties and second homes, from 1 April 2016.

The higher rates will be 3 percentage points above the current SDLT/LBTT rates.

If the rate of SDLT would have been 1%, it will be 4% under the new rules. If the rate would be 3% now, it will be 6% post 6 April 2016.

It is proposed that there may be some exemptions for purchases by companies holding 15 or more properties. HMRC (and Revenue Scotland) have not yet published their proposed guidance on any exemptions.
**Action point**

The practical point from these changes is that, because of the changes to tax relief on loan interest, restrictions on wear & tear and the potential increases in SDLT, BTL investors should consider the impact of transferring buy to let properties to a limited company before April 2016.

This process, known as incorporation, brings with it various tax issues including potential charges to SDLT and also Capital Gains Tax and so should only be undertaken with a full understanding of the implications based on the property portfolio involved.

---

**PROVIDE GREEN COMPANY CARS**

To encourage the use of 'green' company cars, there are tax incentives for company cars which produce low amounts of CO₂/km. These incentives allow cars to be provided which can give little taxable benefit in kind for the employee and give the company a full first year tax deduction for the cost of buying the car. For example, provision of cars with emissions of less than 50 grams of CO₂/km can result in a benefit in kind charge of only 5% for the 2015/16 tax year (7% for 2016/17).

Many employers will opt for cash alternatives to company cars, as an allowance is typically easier to administer. In addition, from 2014/15 the employer has been able to provide loans to employees of up to £10,000 without interest or a benefit in kind.

---

**CLAIM TAX RELIEFS AVAILABLE ONLY TO COMPANIES**

There are a range of tax reliefs which can be claimed by companies but not by individuals or partnerships. These reliefs are typically designed to encourage companies to invest in, or create employment in specific trades or activities.

For example, a company may be able to claim enhanced tax reliefs which give a tax deduction of more than 100% for a range of expenditure which HMRC are seeking to encourage, including:

- Research & Development Tax Relief where relief can be up to 230%
- Creative Sector Tax Reliefs for Theatre, Video Games, Television and Film production companies where relief can be up to 200%
- Land Remediation Reliefs where relief can be up to 150% on the cost of remediation of contaminated land (including removal of asbestos or Japanese Knotweed)
- For loss making companies, the losses created by these reliefs can often also be surrendered to HMRC for a cash tax credit.

---

**RESEARCH & DEVELOPMENT TAX RELIEFS**

Companies should review their activities and consider whether any activities they carry out include elements of Research & Development (R&D). Small and medium sized companies (SMEs) are given an enhanced deduction against tax of 230% of the actual eligible costs incurred, with the chance of actual cash refunds in loss making situations.

For large companies, the basic tax relief is on 130% of the costs. From April 2013, large companies have also been able to alternatively claim the R&D relief as a taxable ‘Above the Line’ credit (effectively a grant) at 10% of their eligible expenditure (11% from April 2015). From April 2016, the ‘Above the Line’ mechanism will become mandatory for companies making claims under the ‘large company’ scheme.

R&D means activities treated as such under normal UK accounting practice – effectively if work is being carried out to overcome scientific or technical uncertainty a claim may well be possible. Typically, HMRC will accept that most manufacturers, engineering businesses and many software development companies are carrying out R&D in their day to day work as part of the process of development of new products and processes.

The eligible expenditure covers staffing costs, consumable stores, certain other costs such as power, fuel, water and software, or sub-contracted work. It must be related to a trade carried on by the company or be expenditure from which it is intended that such a trade will be derived.

---

**PATENT BOX**

In addition to R&D tax credits, the Patent Box provisions introduced in 2012 can also currently be utilised to reduce tax following R&D activities that culminate in patented innovations. The Patent Box regime allows qualifying companies to elect to effectively apply a 10% tax rate to all profits attributable to products, processes or royalties that carry or include a qualifying patent.

The rules have been phased in from 2013 with the low 10% tax rate intended to apply from the 2017 Financial Year.

The UK has recently agreed to change the Patent Box, as the existing Patent Box is seen internationally as giving UK eligible companies an unfair advantage. It has been agreed that the Patent Box regime, as currently drafted, will be closed to new applicants from June 2016 and will stop operating from June 2021. The replacement Patent Box mechanism is intended to only be available for patents linked to R&D that has taken place in the UK. However, companies who carry out their R&D
activities in the UK and whose patents relate to “own IP” which they have generated themselves rather than acquired IP, should see little adverse impact from the restrictions imposed in the new Patent Box mechanism.

The two schemes will run in parallel with each other until 2021 when the original scheme will end (but the new Patent Box scheme is intended to continue after that date).

NEW FINANCIAL REPORTING STANDARD – FRS 102

For accounting periods ending on or after 1 January 2015, the new FRS 102 will need to be implemented by large and medium companies.

Some of the changes to reporting requirements are major and given that comparative figures may need restating, it is something that needs to be considered straight away and you should be discussing the requirements with your accountant.

FRS 102 will, however, not only have an impact on your accounts - there will be knock on effects for your corporation tax which you will need to be aware of.

Some of the main changes for corporation tax are:

- Investment properties. These will need to be included in the accounts at a “fair value”. Additionally, the deferred tax on any increase in value will need to be provided for within the profit & loss statement, rather than through reserves. This could well give rise to practical difficulties, particularly in respect of ascertaining the base cost of properties held for many years.

- Goodwill and other intangibles. These will need to be included at “fair value” which may give scope for revaluation. In addition, the useful economic life of these will now be presumed to be a maximum of 5 years, rather than the current 20 years. This may well increase the amortisation charged in the accounts, which will then increase the tax allowance that may be available.

AUTO ENROLMENT

New workplace pension regulations came into force in October 2012, heralding the most significant changes to the pension sector in many years.

Between 2016 and 2018, more than 1.8 million employers will be required to establish a qualifying Workplace Pension Scheme.

There are still a lot of employers who do not think that the new pension rules apply to them. However, whether you operate as a limited company, partnership or sole trader, if you have one or more employee then you will have to comply with the new regulations.

Failure to do so will mean financial penalties, and persistent offenders can be fined on a daily basis for ignoring the new regulations.

You will be required to establish a qualifying Workplace Pension Scheme with effect from your ‘staging date’ and automatically enrol eligible employees.

Auto Enrolment Smaller Employers – are you ready?

We have enjoyed the calm before the storm. Employers who staged in 2015 had their pick of advisers, payroll companies and pension providers, and were able to engage a bespoke service where required. These lucky employers have enjoyed the fruits of those who came before them and were able to stage with proven systems in place. They had providers who have actively sought business from them, and these employers were able to take advantage of the experiences early stagers had. Those early stagers can share what they found worked well and what didn’t.

From January 2016, it’s the turn of small and micro employers, and by that we mean the vast majority of employers. These include owner/businesses such as our hairdressers, dentists and local handymen, who now have to find compulsory pension contributions if they pay their staff more than £833 per month. Many charities who rely on funding to pay their staff will find this an even tighter squeeze on resources. The cost of an adviser should also be included if the business owner doesn’t have the time to implement the new legislation. And add on the administration fee to the pension provider, and potentially the increased payroll costs. Costs might not all be recognisable in monetary terms, but they will certainly show in terms of the time costs.

In the Autumn Statement, the Government has alleviated the cost of contributions for employers by deferring the end of the phasing period to April 2018 and April 2019. But this is of course at a cost to employees who won’t benefit from a higher pension contribution as a result.

We’ve also seen pension schemes that were "free" to earlier stagers now setting up installation charges and/or on-going monthly fees as the industry anticipates small pension funds, and lots of administration.

So what will become of employers due to stage throughout 2016/17? Auto Enrolment is law, just like VAT and Maternity Legislation, and you need to know how this impacts on you as an employer. Don’t ignore it because it won’t go away, and you will need to do “something”.
Find out what you already have in place to help you, and find out who you might need to ask to help you and build in their costs too. The link between those early stagers and those staging now is planning. Start as early as possible.

The Pensions Regulator site has many tools to help you through your auto enrolment journey, but there are a few areas that employers may want to pay particular attention to; the use of postponement for example. Postponement doesn’t delay your staging date, but it does mean that you can postpone the assessment of your workforce for up to three months. This allows employers to ensure that the worker is going to remain employed before having to make a pension contribution. A one month postponement may also help administratively.

Employers should consider what pensionable salary they will use for calculating pension contributions. Qualifying earnings may be useful where the workforce’s total earnings don’t change much as the lower earnings threshold can be deducted. However, if basic salary looks to be more cost effective due to a lot of overtime/commission/bonus, employers need to be aware that the starting minimum contribution is 3% in total (2% from the employer), with a higher percentage contribution required by April 2019.

Don’t forget that there are statutory communications that need to be sent to the workforce too. Making workers aware of auto enrolment and what their contributions will be, will involve workforce engagement.

Auto Enrolment brings you closer to your employees. How will you deal with it?

NATIONAL LIVING WAGE
The National Living Wage (announced by the Chancellor in the 2015 Budget) is due to be introduced from April this year to £7.20 per hour for over 25 year olds. This could cost small businesses as much as £2 billion, so planning cash-flow is key for small businesses, especially as the National Living Wage is set to rise to £9.00 per hour by 2020.

The cost to business is likely to be significant, especially for businesses who are reliant on part-time workers such as the tourism and leisure sector and care sector.

From an employee’s perspective the Government have put a very positive spin on this announcement but for business owners this can have negative repercussions. Many businesses fear that they will be forced to make redundancies to manage ever increasing salary costs. This comes at a time when the Government are also ensuring employers provide pensions for employees through Auto Enrolment. Many employers are still not yet Auto Enrolled and have no idea of the impact of the cost increases that face them.

The wage hike will affect workers aged 25 and over, and is reportedly set to boost the salaries of over six million people. National Minimum Wage rates will stay the same for workers aged 24 and under.

GOVERNMENT TIGHTENING OF THE RULES FOR ENTREPRENEURS RELIEF?
There are potential changes affecting distributions in solvent liquidations within the proposed 2016 Finance Act coming into effect on 1 April 2016. The time period for interested parties in which to respond to the Government’s consultation document regarding company distributions, has now closed.

Whilst dependent upon the outcome of that consultation, it seems likely that a new TAAR (Targeted Anti-Avoidance Rule) will come into effect, suggesting that as of 6 April 2016, any distributions to shareholders in an MVL (Members’ Voluntary Liquidation) could be considered an income distribution rather than a capital distribution, as is the case presently.

Three criteria will be looked at:
• An individual receives distribution in the winding up of a company in which he is a shareholder
• Within 2 years after the winding up, the individual is involved in a similar trade or activity, and
• One of the main purposes of the winding up was to obtain a tax advantage.

Therefore some shareholders who may expect to pay a 10% capital gains rate if Entrepreneurs Relief is available, may actually end up paying tax on that income at the higher dividend rates up to 38.1%. An increase of 28.1% on the funds withdrawn.

Action Point
Shareholders in these circumstances should seek urgent guidance on their options. Time is running out to take action if these rules are to take effect in April 2016.

Contact us
We trust that this year end tax planning guide is helpful to you personally or for your business and if you wish to discuss any aspect further please contact us at enquiries@hlca.co.uk