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HENDERSON LOGGIE
Chartered Accountants

Year End Tax Planning Guide

2016/17

Our year end guide, which was produced in conjunction with our national accountancy association MHA, summarises some key tax and financial planning tips which should be considered prior to the end of the tax year on 5 April 2017 or for companies, the end of the financial year on 31 March 2017.

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Income Tax

The starting point in tax planning is to understand where your income is likely to fall relative to the tax thresholds. For 2016/17, the tax free personal allowance is £11,000 and the next £32,000 is taxed at 20%. Higher rate tax of 40% is charged on income above £43,000 and additional rate tax of 45% is charged on income above £150,000.

The personal allowance is reduced by £1 for every £2 of income above £100,000. There is therefore no personal allowance at all where income exceeds £122,000. This also means that, over the income band £100,000 to £122,000, the effective rate of income tax is 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 tax allowances, sufficient income should be generated where possible to fully utilise the personal allowance and basic rate band. This may be done by careful planning of the timing of dividends from a private company or distributions from a family trust.

A personal savings allowance was introduced from 6 April 2016. Basic rate taxpayers are entitled to £1,000 of tax free savings income and higher rate tax payers £500, with additional rate tax payers receiving no allowance. As with the withdrawal of the personal allowances, take action to ensure your income does not just go over the thresholds. If it does, consider making pension or gift aid donations.

New rates of tax for dividends came into effect for dividends received on or after 6 April 2016. A new dividend nil rate band of £5,000 is available for all tax payers.

Action Point

Careful planning will be required for some, if a company has sufficient distributable reserves, it will make sense paying an extra dividend before 5 April 2017, but others will find it beneficial to delay to afterwards.

Thereafter, any dividends falling within the basic rate band are taxed at 7.5%, 32.5% for dividends falling within the higher rate band and 38.1% for dividends falling into the additional rate band.

Married couples and civil partners have further opportunities for using their allowances and it should not be forgotten that children also have tax free allowances.

It is also important to remember that child benefit gets effectively withdrawn by 1% for every £100 of income earned over £50,000 (taking the highest earner in a household for these purposes), being reduced to nil once your income reaches £60,000. The effective rate of income tax within the band of £50,000 to £60,000 will depend on the greater the number of eligible children and the higher the effective tax rate. Where income falls within this band, mitigation by pension contributions or gift aid is again in point.

Action Point

Owner-managed companies can make use of the dividend allowance of family members by paying dividends to the spouse or adult child. In addition, where a director's loan account exists, interest should be charged such that the director is able to utilise any personal savings allowance.

Capital Gains Tax

Use Your Annual Exemption

The annual exemption for 2016/17 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 (selling some shares and then buying the same shares a bit later to crystallise a gain or a loss), a gain or loss does not crystallise for tax purposes if you sell shares and repurchase the same shares within 30 days.

Action Point

It is possible to repurchase the same shares through an ISA. Alternatively, a married couple can arrange for one partner to sell shares after their spouse has transferred some loss making shares to them to reduce the overall gain.

Capital Gains Tax Continued

Rates of Tax

The rate of Capital Gains Tax (CGT) is 10% where the total of taxable gains and taxable income is less than £32,000. Any excess gains are taxed at 20%. Where Entrepreneurs Relief applies, the rate on the whole gain is 10% (see below). Gains on residential properties are taxed at 18% where the total of taxable income and gains is below £32,000. Above this threshold the tax rate is 28%.

Crystallise & Use Capital Losses

Capital losses must be offset against capital gains in the same year. Unused losses are carried forward indefinitely and can then be 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 2017 in respect of 2012/13 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?

CGT 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 trading company and in certain circumstances to personally held assets that have been used by a partnership that you are a partner of or a company that you control. Entitlement to ER requires a number of conditions being met for a continuous period of 12 months up to the date when the disposal is made, so early advice should be taken to ensure that the gain qualifies for relief.

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 12 months prior to the disposal, so the earlier you seek advice, the more chance of ER being available.

Determine Your Main Residence

The gain on your principal private residence is exempt from CGT. 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. However, 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 will become chargeable. Written nominations must be submitted to HMRC within 24 months of any change in residences becoming available.

Do remember that gains on residential properties which are not your residence are charged at the higher rates of CGT (likely to be 28%).

Action Point

If you own more than one home, consider whether a principal private residence election is needed.

Marital Breakdown

If you have permanently separated from your spouse during this tax year, you may want to consider dealing with transferring assets between you before 5 April 2017. This is because assets can pass between separated spouses without capital gains tax in the year of permanent separation. Transfers taking place after this deadline may attract Capital Gains Tax.

Tax Favoured Investments

Utilise Individual Savings Accounts

Individual Savings Accounts (ISAs) are an excellent investment for higher rate taxpayers and the maximum allowance for 2016/17 is £15,240, but this will increase to £20,000 for 2017/18. The income tax exemptions will be now preserved on death, where one spouse or civil partner leaves it to the other. However, please note that they remain chargeable to Inheritance Tax (IHT).

Consider Investing in Enterprise Investment Schemes and Seed Enterprise Investment Schemes Shares

Tax relief is available where you subscribe for shares qualifying for Enterprise Investment Schemes (EIS) or Seed Enterprise Investment Schemes (SEIS) relief.

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 gain.

The SEIS scheme offers another form of reinvestment relief for investors who subscribe for shares in small start-up companies. For 2016/17, the maximum qualifying investment is £100,000.

Income tax relief is given at the rate of 50% of the sum invested, and relief may be given against tax in 2016/17 or 2015/16.

Both EIS and SEIS shares are normally exempt from CGT and IHT, 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 as carrying with them a high degree of risk.

Venture Capital Trusts

Venture Capital Trusts (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 five years in order to retain the income tax relief. Note that income tax relief on the purchase of VCTs 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.

Action Point

Prudent utilisation of the relief's associated with tax favoured investments as part of a balanced portfolio can make a big difference to future investments returns, but it is important to consider the risks associated with them and it is essential that professional advice is sought.

Property Investment Business

Tax Relief for Mortgage/ Loan Interest for Residential Buy-to-Let Investors

From April 2017, the amount of interest eligible for tax relief at the higher and additional rates (40% and 45%) will be restricted as follows:

- 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 remaining interest will be eligible only for income tax relief at the basic rate (20%).

From 6 April 2020, a higher or additional rate taxpayer will only be able to claim relief for any Residential Buy-to-Let (RBTL) interest at the basic rate.

The way that this restriction operates means that a taxpayer's total income will no longer include a deduction for the restricted interest. This can further affect a taxpayer's position if this increase means the taxable income then exceeds certain thresholds which reduce the availability of child benefit, the personal allowance or the pension savings annual allowance.

Action Point

RBTL investors should consider tax planning opportunities as soon as possible. This could involve paying down debt or refinancing lending. Incorporation may be desirable in some cases, but a careful examination of the relevant factors is required, including any available reliefs from CGT or SDLT and whether your mortgage company is happy with the change.

Annual Tax on Enveloped Dwellings

Annual Tax on Enveloped Dwellings (ATED) is a tax change that can apply when residential property with a value of at least £500,000 is held in an 'envelope'. Broadly, an envelope includes a limited company, an LLP with a corporate partner or a collective investment scheme.

For any properties owned at 6 April 2017, unless the 'envelope' is a charity, a return will need to filed by 30 April 2017 and any tax accounted for. In the case of a mid-year acquisition, a separate return must be filed within 30 days of purchase.

The ATED charge is based on the relevant property valuation. Relief from the ATED charge is available in many situations, including where the property is used for property development or as part of a Buy-to-Let business. It is important to remember, even if there is no ATED charge, a nil return may still need to be filed and the relief claimed to avoid penalties.

It is the property value at 1 April 2012 (or date of acquisition if later) that must be tested against the thresholds for ATED for the 17/18 return. However the rules dictate that the 1 April 2012 values would need to be revalued every five years. The first revaluation for properties which have not been sold in the interim will therefore be on 1 April 2017.

While the new valuation does not need to be inserted onto the return until the period beginning on 1 April 2018, it is easier to consider the 1 April 2017 valuation at that point rather than at the later date where the valuation is used.

Action Point

If you hold a residential property within an envelope, advice should be sought to understand whether it falls within ATED. If you file a return 6 months late, the penalties could be £1,000.

Residential Property Disposals by Non-Residents

Non-resident entities disposing of UK residential property must report the disposal to HMRC within 30 days of conveyance and include a computation of the capital gain or loss arising. If a return is late, automatic penalties will be charged even if no tax is due. A return which is 12 months late can attract a penalty of £1,600.

Action Point

Ensure timely disclosure is made to HMRC to avoid penalties.

Inheritance Tax

Plan for the Freeze in Inheritance Tax Thresholds

The Inheritance Tax (IHT) nil rate band is currently frozen at £325,000 until 5 April 2021. As part of a person's ongoing 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, that amount 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.
- Lifetime Giving – A person may also consider making lifetime gifts in excess of the above exemptions. A person must survive such a gift by seven years for it to fall out of their estate 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 inheritance tax at the rate of 20% and therefore transfers to trust should be limited to the available nil rate band. Trusts can be very beneficial, but specialist advice is needed. You always need to watch if CGT arises on lifetime gifts so you should take specialist advice on gifts of assets rather than cash.
- IHT Efficient Investments – Another alternative can be to place funds into IHT efficient investments, for example, shares in qualifying AIM listed companies. Such investments benefit from business property relief and as such are 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 needs to be considered as well as the tax benefits. 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. Care needs to be taken with estates worth over £2m, even where BPR or other reliefs apply. If you are downsizing your property, you will need to keep your adviser informed as this could affect the new exemption.
- 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.

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 an 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 the net cost of the donation is only £60. For an additional rate taxpayer, the further tax relief is worth £25, so the net cost of the donation is only £55. You should keep a record of Gift Aid donations made in the year. Finally, 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, 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 £1m on which inheritance tax is due at 40%, the inheritance net of tax is £600,000. If £100,000 was given to charity, only £900K is left, but after tax at 36%, £576,000 is left. Thus, £100,000 is passed to charity at a cost to the family of £24,000.

Financial Planning

April 2016 saw further changes to the Lifetime Allowance, as well as the Annual Allowance for people with earnings over £150,000 (or £110,000 in some cases). These changes can affect you whether you are a member of an occupational scheme or have your own personal arrangements.

Annual Allowance

Generally, you can contribute £40,000 (gross) a year into a pension scheme. This can be increased if you did not use up your allowances in the preceding 3 years. The total you can invest in a suitable pension arrangement each year was reduced by £10,000 (£50,000 to £40,000) on 6 April 2014.

From 6 April 2016, the standard annual allowance (AA) of £40,000 for pension contributions (the total of personal and employer contributions) was also reduced by £1 for every additional £2 of an individual's 'adjusted income' over £150,000 and can still affect you if your income from all sources is over £110,000. Unused allowances from 2013/14, 2014/15 and 2015/16 can be brought forward and used in 2016/17. The allowance in 2013/14 was £50,000 before reducing to £40,000; this "falls off" on 5 April 2017 if not used.

This can affect you unexpectedly if you are a member of a Final Salary (e.g. Defined Benefit (DB)) or Career Average scheme as the contributions are ignored and the increase in benefits issued to measure the pension input amount. Should you breach the rules and pay too much, you will be subject to an annual allowance charge. Payment of this charge is the individual members' responsibility and will be charged at your marginal rate of tax but it is possible to some or all of this could be paid by the pension scheme through a scheme pay arrange but you should take advice about this.

Lifetime Allowance Considerations

Although funds invested within a pension can grow tax free, there is a limit (the lifetime allowance (LTA)) on the total amount you can hold in a pension pot: funds in excess of the limit will suffer penalty tax charges when you start to take pension benefits.

The LTA reduced from £1.25m to £1m from 6 April 2016. You can now elect for 'individual protection 2016' (IP16) to preserve your individual LTA at the lower of £1.25m or the actual value of your pension funds at 5 April 2016 (if they were above £1m on 5th April 2016).

Action Point

If the total of all your pension funds is likely to be at or near £1m by the time you retire, you should seek urgent advice on whether opting for IP16 is appropriate.

If you had pension savings on 5 April 2014 which have a value of more than £1.25m, 'individual protection 2014' (IP14) allows you to protect those savings (up to a value of £1.5m), as long as you don't have primary protection. Your application for IP14 must be received by HMRC by 5 April 2017 at the latest which is fast approaching.

As with previous reductions, individuals can also preserve the earlier £1.25m LTA by opting for 'fixed protection 2016' (FP16), although, all contributions must have stopped from 6 April 2016 if fixed protection is chosen.

Whilst personal and similar pension funds look at the market value of the assets in the pension funds to test against the LTA, Final Salary and superannuation schemes work this out by taking your expected pension and multiplying it by 20. So if you are a medic or a teacher with an expected pension of more the £50,000 you should take urgent advice.

The government announced that the LTA will increase in line with the Consumer Price Index each year from April 2018.

Stakeholder Pensions

Stakeholder Pensions allow contributions to be made by, or for, all UK residents, including children and grandchildren. Consider making a net contribution of up to £2,880 (effectively, £3,600 gross) each year for members of your family, even for those who do not have any earnings.

You can also make pension contributions in respect of family members who do not work (i.e. have no relevant earnings) or cannot afford them.

If you make contributions to your children's pension schemes on their behalf, they get the tax relief and the payments are treated as reducing their taxable income, so it could help keep them below the £50,000 income threshold at which they can retain the child benefit.

The earlier that pension contributions are started, the more they may benefit from compounded tax free returns.

Financial Planning Continued

Pensions Freedoms

The popular pension freedom reforms launched in April 2015 mean that people can now access their whole pension pot at age 55 and spend, save or invest the money as they wish. Savers can withdraw the whole pot in one go, although you might mistakenly run up a huge tax bill, especially if you were only used to being taxed at the 20% basic rate through an employer. By withdrawing large portions of your retirement pot, the outcome may be that you move into a higher-rate tax bracket.

“Radical Changes” - What have the new rules meant for you?

In his March 2014 Budget, the then Chancellor George Osborne introduced “the most radical changes to pensions in almost a century”. It had been estimated that as many as ‘one in eight’ pensioners may seek to withdraw all the funds in their pension. In his speech, George Osborne clearly underlined the need for expert advice whatever your stage of life, in order to benefit from the changes and ultimately enjoy a comfortable retirement.

In Q2-4 2015, £3.5m was flexibly accessed by 232,000 individuals and in Q 1-3 2016, £4.1m has been flexibly accessed by 391,000 individuals (source HMRC Release 26/10/2016).

Changes

The limits on how much people can withdraw each year have been relaxed since March 2014 and again in 2015. This requirement was abolished altogether from April 2015 and now nearly all pension savers (not final salary schemes) can have a choice of taking an annuity, a lump sum or “flexible access” allowing them to take sums out of their pension schemes as and when they need.

Flexible Access From Age 55

Pension investors aged at least 55 (rising to 57 from 2028) will be able to access their pension fund as a lump sum if they wish. The first 25% will be tax free and the rest will be treated as taxable income and will be subject to income tax at their marginal income tax rate.

Basic-rate tax payers need to be aware that any income drawn from their pension will be added to any other income received, which could result in them paying tax at 40% or even 45%. You can also choose to take your pension in smaller lump sums, spread over time, to help manage your tax liability.

Action Point

If you are in a Defined Contribution scheme (“DC” or Money Purchase), you should consider your options now.

Since April 2015, some restrictions have been removed. Fully flexible drawdown will offer considerable freedom but highlights the need for expert planning advice. Capped drawdown arrangements will continue, though they are currently limited to 150% of a benchmark annuity rate. It should be noted that adopting these new flexibilities will restrict your future ability to invest more into your pension scheme, so care is necessary! This limit was originally £10,000 (the Money Purchase Annual Allowance or MPAA), but it has been announced in the Autumn Statement 2016 that this will decrease to £4,000 from April 2017 so if you are in drawdown you may wish to make a final payment before 5 April 2017 to make a last large top up to your funds.

Action Point

If you were already in flexible drawdown prior to 6 April 2015, you can move to the new unlimited regime and draw more income than the current maximum, but that can lead to restrictions on further contributions.

Transferring a Final Salary Scheme

If you have a final salary (e.g. Defined Benefit (DB) pension fund, you may still be able to take advantage of the new rules to make unlimited withdrawals. However to do so, you would have to transfer some or your entire pension into a Defined Contribution scheme (DC or Money Purchase), such as a Self Invested Personal Pension (SIPP). You should seek financial advice before transferring benefits, as you could lose valuable benefits which need to be weighed against the new flexibilities.

Unfortunately, members of unfunded public sector DB schemes, such as the NHS Superannuation scheme won’t be able to transfer to DC schemes.

Action Point

Speaking to an adviser before transferring benefits out of a DB scheme will ensure you are aware of the full implications.

Financial Planning Continued

Reviewing Your Retirement Plans

The new rules give considerable freedom of choice. Under the new rules, whilst nobody will be forced to buy an annuity at any age, those who wish to can do so at present and this may prove to remain the most appropriate solution for some people.

Clearly, it has never been more important to make the right choices about your pension fund, both about how you should carry on saving, as much as how you should take the benefits. These decisions will affect you for the rest of your life. It is essential, especially for those nearing retirement, to seek professional advice. Not only will an expert look at your pension fund, but they will consider your wider financial goals. They will also consider another aspect of the new freedoms outlined below.

Your Pension Pot - A Tax Efficient way of Keeping it in the Family

Important changes are also taking place with regards to how pensions are treated in the event of your death. Retaining pension wealth within the pension fund and passing it to future generations is now an extremely tax efficient estate planning solution, as it combines Inheritance Tax (IHT) free inheritance with tax free investment returns and potential tax free withdrawals. Indeed it may even change the way we utilise our capital in retirement, possibly leading us to spend other funds before our pensions.

From April 2015, you have been able to nominate who inherits your pension fund. It can be anyone of any age and is no longer restricted to your ‘dependents’. If death occurs before age 75, the nominated beneficiary can access the funds at any time tax free.

If the original policy holder dies after age 75, defined contribution pension funds can be taken in instalments or a lump sum and will be taxed at the beneficiary’s marginal rate as they draw income from it.

Additionally, the nominated beneficiary can appoint their own successor, allowing the accumulated pension wealth to cascade down generations, whilst continuing to enjoy the tax freedoms that the pension wrapper will provide.

Each time a pension fund is inherited, the new owner has control over the eventual destination of those funds.

Key Points to Remember

- Flexible access to pensions from age 55 (57 from 2028 and set to remain at 10 years below State Pension age).
- Pension drawdown restrictions relaxed.
- Some final salary pensions can be switched to DC, but some transfers from public sector schemes are no longer allowed.
- Death benefits paid to beneficiaries before age 75 will be completely tax free.
- Death benefits after death over 75 will be subject to tax at beneficiary/nominees marginal rate.
- The 25% tax-free amount no longer has to be taken at once on retirement. It is possible to take smaller amounts over time, each with 25% tax free.

Corporation Tax

In these uncertain times as we leave the EU, your financial strategy is likely to be for stability or growth.

The impact of Brexit on your company will depend on the sector and countries within which you operate. Naturally there will be a further period of economic and business uncertainty and as part of planning for the future it will be important to maximise any reliefs and claims that are available to companies.

A word of warning though, the government continues to challenge any tax planning which they deem abusive. This guide summarises some key tax and financial planning tips which should be considered prior to the end of the tax year on 5 April 2017 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 as Parliament intended, to assist businesses and companies to improve cash flow for growth.

Corporation Tax Continued

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. Most recently we have seen a few major international companies look to move their central functions to the UK, which may offset the potential move away by some UK banks.

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, 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 2016 – 31 March 2017: 20%
- From 1 April 2017 – 31 March 2020: 19%
- From 1 April 2020: 17%

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 and whether a company should make quarterly payments of its corporation tax liability. If, the associated companies total profits exceed £1.5 million this is likely to trigger these quarterly payments.

Using a company to run your business as distinct from say a sole trader, can therefore bring some tax savings, particularly where the company profit is retained and reinvested. The higher rate of income tax on dividends from companies makes using a company much less attractive than previously, but at the very least a company can produce a deferral of tax.

Income and Expenditure

The general tax planning strategy should normally be to defer income and make full use of all available allowances and deductions. The reduction in the main rate of corporation tax to 19% from 1 April 2017 and then 17% from 1 April 2020 increases the value of this strategy.

Income

Income is reflected for tax purposes in accordance with what is termed generally accepted accounting principles (GAAP). The general principle is that income arises when the work is done or the goods are supplied and not when you are paid. The approach that is taken will be very much specific to the business in which you are involved. It may be possible for income to be deferred into a later accounting period. In certain situations, a change in policy can defer income to later periods. However, the accounting policies must be applied on a consistent basis from one year to the next and must be consistent with GAAP.

The new accounting standards FRS102 and FRS105 can affect the recognition of income and expenditure recorded in the profit and loss account on things such as investments, goodwill and financial instruments. Companies will need to consider these changes and plan for a potential acceleration of tax.

Expenditure

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.

Corporation Tax Continued

Bonuses

It might be possible to make a 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 (including schemes such as a SIPP or a SASS for the directors and their families), tax relief is given for contributions actually paid in the year, rather than the amounts provided for in the accounts.

Research and Development Tax Relief

Companies carrying on qualifying research and development (R&D) activities can save corporation tax, depending on the costs incurred. Only companies can claim this relief and sole traders and partnerships cannot. Generally speaking the relief is under claimed and it is important to identify any potential R&D projects. See page 15 for more detail.

Maximising Tax Relief for Capital Expenditure

Before the end of your accounting period you should seek to make use of the Annual Investment Allowance (AIA) and other capital allowances. You may decide to bring forward capital expenditure, particularly where the AIA will be exceeded in the following accounting period. Remember there are rules dictating when capital allowances can be claimed, for example, the requirement for the asset to belong to the company and in respect of extended payment terms.

Action Point

As with all tax advice and specific opportunities, there has to be a balance met between the commercial objectives of the company and any implementation of the issues mentioned above. This should be discussed with the tax department who specialise in ensuring advice is technically sound and commercially savvy.

Capital Allowances

Business Premises Renovation Allowances

Businesses wishing to take advantage of the Government's generous regeneration driven Business Premises Renovation Allowances (BPRA) scheme should be aware that the opportunity window for claiming the relief is set to close in March 2017 for companies and in April 2017 for individuals.

Broadly, the BPRA regime, which was extended for a further five years in April 2012, provides an initial 100% tax allowance for both corporates and individuals who have converted or refurbished property in Government approved disadvantaged wards. The deadline for making BPRA claims is as follows:

- 31 March 2017 – for Corporation Tax
- 5 April 2017 – for Income Tax

Capital Allowances Continued

The key criteria for refurbishment expenditure to qualify for BPRA relief are that:

- The building must have been located in a designated disadvantaged ward and;
- The property must have been out of use for a period of at least 12 months immediately prior to the commencement of the refurbishment works and;
- The property must have previously been used for commercial purposes i.e. a qualifying trade.

Action Point

Should you be considering the renovation of a disused property in the near future, the acceleration of such expenditure could potentially unlock additional allowances that won't be available post April 2017.

Integral Features Uplift Opportunities – The 'New' Fixtures Rules

The 'new' fixtures pooling requirement came into force with effect from 1 April 2014 and affects all property disposals after this date.

The statutory pooling requirements essentially cover two key aspects:

1. The vendor must 'pool' the value of all fixtures in the property being disposed of which they have been entitled to; and
2. The two parties must enter into an s198/s199 fixtures election to formally elect the vendor's disposal values and therefore the allowances which are available to the purchaser.

A key opportunity therefore lies within the realm of Integral Features. The statutory Integral Features rules came into force from 1 April 2008 and therefore, vendors who acquired properties prior to this date have no entitlement to pool such expenditure upon disposal post 1 April 2014.

Action Point

Both for capital allowances generally and purchase/sale of a property, the earlier capital allowance advice is sought, the more planning that can take place to ensure the best treatment is obtained. However, should you have acquired a property post 1 April 2014 and no elections were entered into at the time of acquisition, all may not be lost. The opportunity may be available for an Integral Features uplift review on 'background' plant and machinery that was bought/installed by the vendor pre 1 April 2008, but upon which they were never entitled to pool at the time of disposal. If you believe you may be in such a scenario, talk to us to ensure that the best tax treatment is obtained.

Enhanced Capital Allowances – Motors & Drives

Given the 100% Annual Investment Allowance (AIA) decreased to £200,000 from £500,000 from 1 January 2016, the availability of 100% First Year Allowances (FYA's) for group's of companies is therefore fairly restrictive with regards to their annual asset expenditure. However, there is the opportunity for organisations primarily operating within the manufacturing and production sectors to enhance their entitlement to 100% FYA's under the Enhanced Capital Allowances regime (ECA), where they have installed energy efficient motors and drives.

It is typical for large manufacturers to incur qualifying expenditure on energy efficient motors and drives within their production facilities, many of which are already integrated into larger pieces of machinery. Where such assets meet the government's approved energy efficiency ratings and are listed on certain databases populated by the Carbon Trust, such assets can qualify for ECA's and receive the benefit of 100% tax relief in the year of expenditure. Under the current ECA regime loss making companies also have the opportunity of surrendering their identified ECA allowances derived from energy efficient assets for a cash tax credit.

Action Point

Should you believe you may have installed assets within your facilities which may include energy efficient motors and drives, talk to us to ensure you are fully maximising your entitlement to 100% Capital Allowances. Alternatively, for loss making businesses an ECA review may well trigger a cash tax repayment from HRMC to assist with cash flow.

Enhanced Tax Reliefs

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%.
- Patent Box and the reduced tax rate of 10% on certain profits.
- Creative Sector Tax Reliefs where relief can be up to 200%.
- Land Remediation Reliefs where relief can be up to 150%.

For loss making companies, the losses created by these reliefs can often also be surrendered to HMRC for a cash tax credit.

Research and Development

Companies should review their activities and consider whether any of these undertakings include elements of Research & Development (R&D).The R&D 'net' can fall wider than you might think and the reliefs available can be extremely advantageous. 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 an 'above the line' taxable credit of 11% of qualifying expenditure.

- R&D relates to activities treated as such under normal UK accounting practice, as modified by HMRC. Effectively if work is being carried out to overcome scientific or technical uncertainty, a claim may well be possible. The eligible expenditure covers staffing costs, consumable stores, certain other costs such as power, fuel, water and software, sub-contracted work and externally provided workers. 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.
- Until 31 March 2016, large companies were able to choose between claiming an enhanced tax relief of 130% on qualifying expenditure or making a claim for an 'above the line' taxable credit (now 11%, previously 10%). From 1 April 2016, large companies may only claim the 'above the line' credit.
- In some cases, small or medium sized companies may be able to claim under the large company scheme if they are precluded from the relief available to small and medium sized companies.

Action Point

Owner-managed companies can make use of the dividend allowance. Companies should carefully review their activities to ensure they do not overlook the possibility of making a claim for R&D relief.

Patent Box Regime

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 were phased in from 2013 with the low 10% tax rate intended to apply from the 2017 Financial Year. The regime is seen internationally as giving UK eligible companies an unfair advantage. This regime will continue until 30 June 2021 for those who were in the regime before 1 July 2016.

Under the new regime, the company claiming the relief will have to have incurred expenditure in developing the IPR and so simply managing the rights will no longer be sufficient.

Action Point

Companies should consider whether there are any patents which could benefit from being taxed under the old Patent Box regime and make the appropriate election within the deadline, which is generally two years from the accounting period end.

Creative Sector

Creative sector tax reliefs are a growing suite of special tax breaks that are being made available. Examples of this include films, animation programmes, high end TV programmes, video games, theatres and orchestras.

There are detailed and differing conditions for each of these potential reliefs, which companies should seriously consider in order to not miss out on possibly significant tax reliefs.

Enhanced Tax Reliefs Continued

Land Remediation Reliefs

Relief can be available on the cost of cleaning up land which had been acquired in a contaminated state. The relief is 150% of the costs incurred and can apply irrespective of whether the costs have been treated as revenue or capital in the financial statements.

This relief is commonly related to clearing out asbestos from old buildings, but can also apply to naturally occurring arsenic or radon. Special rules apply to Japanese knotweed.

A similar relief may be available for companies that bring long term derelict land back into use.

Making Tax Digital

By 2020, the tax return is likely to have been abolished altogether. Most businesses, self-employed people and landlords will need to keep records digitally and will update HMRC more frequently than is currently the case.

Businesses and landlords will be required to maintain their records on apps or software that is compatible with HMRC's interfaces. They will have to submit information online on a quarterly basis, as well as make an end of year declaration through their digital software. The information will be summary information rather than on a transaction basis. They will then also be able to make voluntary payments of tax.

There will be a gross income exemption threshold, and charities, community amateur sports clubs and the digitally excluded will also be exempt from tax digitalisation.

The first tranche of businesses and landlords are expected to have to start filing information digitally from April 2018.

Action Point

Taxpayers' main priority should be to start thinking about implementing a digital accounting system if they do not currently have one in place. Manual record keeping and Excel will no longer be acceptable approaches to maintaining business records for the purposes of keeping HMRC updated.

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If you would like more advice about any of the topics covered or if you would like bespoke year end tax planning advice, please contact the team on:

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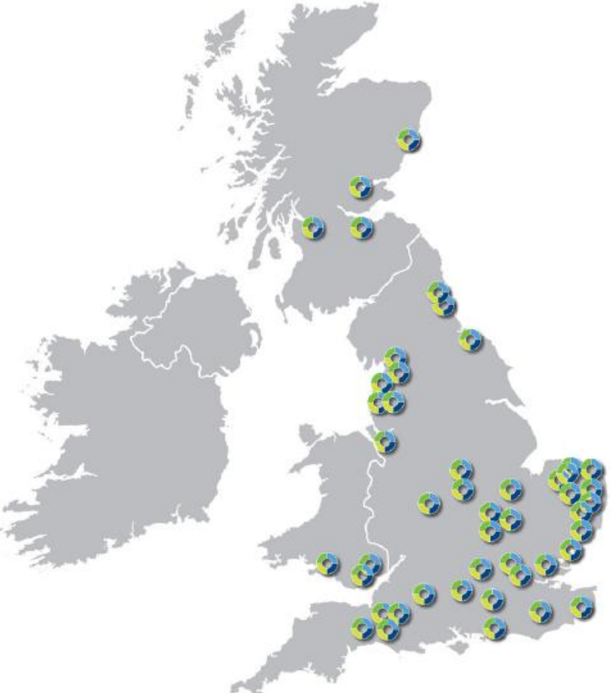

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