FINANCIAL GUIDE

A GUIDE TO

2013/14 YEAR END TAX PLANNING

PROTECTING YOUR WEALTH FOR YOU AND FUTURE GENERATIONS

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No one likes to pay more tax than they have to but one of the challenges of wealth is the high taxation it attracts. With real-terms tax increases the prospect for the foreseeable future, the pressure is on to make the most of every available tax-planning opportunity.

Different ideas will suit different people but you'd better get your skates on. With the end of tax year fast approaching on 5 April 2014, sorting out your finances now is vital. Please ensure that you take professional advice before acting. Here are some examples of the ways in which legitimate planning could save you money by reducing your tax bills.

Deferring income

Whatever your top rate of tax, if you have some flexibility over the timing of income, consider arranging for investment income, earnings or profits to fall into a later tax year. So long as this doesn't increase the rate of tax you pay, deferring income may mean you can delay when you have to pay the tax.

Take advantage of your annual allowance for making pension contributions, because tax relief is available up to your highest tax rate.

Pension tax relief is due to be restricted yet further from 6 April 2014, so do you need to maximise your contributions now to make the most of your annual and lifetime allowances? Currently, the annual pension contribution allowance is £50,000 but will reduce to £40,000 from 6 April 2014. The lifetime allowance will also be reduced, from £1.5 million to £1.25 million, but many people may now find their chance to build their pension 'fund' up to the lifetime maximum restricted. Contributions made in excess of your annual allowance will attract a tax charge at your marginal tax rate.

Employers' pension contributions save National Insurance Contributions (NICs)

Where your employer pays you a salary which you invest in your pension, both you and your employer have to pay NICs. If your employer pays a contribution directly into your pension scheme, the employer receives tax relief for the contribution and there are no NICs to pay – saving both the employer and you NICs. You could arrange with your employer to cover the cost of the contributions by foregoing part of your salary or bonus.

Take advantage of tax-efficient investments

Take advantage of the Individual Savings Account (ISA) investment limits and generate tax-efficient income and capital gains. The maximum annual amount which can be invested in an ISA is currently £11,520 (2013/14). Up to half of the maximum limit can be in a Cash ISA with the remainder being invested in a Stocks and Shares ISA.

Contribute up to £3,720 into your child's Junior ISA. The fund builds up free of tax on investment income and capital gains until the child reaches 18, when the funds can either be withdrawn or rolled into an adult tax-efficient ISA. Relatives and friends can also contribute to the child's Junior ISA, as long as the £3,720 limit is not breached. Any child aged under 18 who lives in the UK can have a Junior ISA if they were not entitled to a child trust fund (CTF) account.

Obtain a 30% income tax credit by subscribing for shares in a Venture Capital Trust (VCT) or an Enterprise Investment Scheme (EIS). In 2013/14 the maximum subscription in VCT shares is £200,000. The shares are also exempt from CGT when they are sold. A subscription in EIS shares costing up to £1 million will give you the income tax credit. In addition, you can defer tax on your capital gains by reinvesting an unlimited amount of gains in EIS shares. VCT and EIS shares can be higher risk investments and you must hold VCT shares for at least five years and EIS shares for three years in order to retain your income tax credit.

Invest in a small trading company under the Seed Enterprise Investment Scheme (SEIS) and gain 50% income tax relief on an investment of up to £100,000. Capital gains on SEIS shares are exempt from tax if the shares are held for at least three years, and a tax exemption is available for any capital gains that are reinvested. For 2013/14 only 50% of reinvested gains are exempt, compared to 100% for 2013/14. You have until 5 April 2014 to make a SEIS investment in respect of 2013/14 gains. But be warned – investing in small companies can be very risky and you must hold SEIS shares for three years in order to retain your income tax credit.

INDIVIDUALS HAVE A CGT-FREE ALLOWANCE OF £10,900 IN THE CURRENT TAX YEAR. IF YOU HAVE NOT REALISED GAINS OF THIS AMOUNT, YOU SHOULD LOOK AT WHETHER ASSETS CAN BE SOLD BEFORE 6 APRIL 2014 TO TAKE ADVANTAGE OF THIS TAX-FREE AMOUNT.

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Make full use of Capital Gains Tax (CGT) reliefs and exemptions

Individuals have a CGT-free allowance of £10,900 in the current tax year. If you have not realised gains of this amount, you should look at whether assets can be sold before 6 April 2014 to take advantage of this tax-free amount. If you are married or in a registered civil partnership and want to realise a gain on shares to use up the exemption, but want to keep the benefit of those shares in your family, your spouse or registered civil partner can buy back a similar number of shares to those sold – although a direct sale or gift to your spouse or registered civil partner will not achieve the desired result. If your relationship is not formalised by marriage or registered civil partnership, a gift to your partner will achieve the same result without the need to incur dealing costs.

Reduce CGT charges from 28% to 18% or 10%

If you own assets on which you qualify for Entrepreneurs' Relief (ER) you can claim to pay a reduced rate of 10%. This relief is subject to certain criteria being met for at least a year and there is a lifetime limit of £10 million, so it is extremely important to ensure your assets qualify for this relief where possible.

Use CGT losses to the full

If you already have taxable gains, review your other assets to see if you can crystallise losses to reduce the gains on which you pay tax. If you do this, take care only to realise enough losses to reduce your gains to below the level of the annual exemption. If you have made losses that you don't need to set off against this year's gains, you should still claim them.

Ensure wills are up to date

You should ensure that your will is up to date and reflects your wishes. The will should be written in a way that both minimises tax and gives your family flexibility and protection in the future, for instance, by using tax-efficient trusts. Trusts may enable your heirs to make more tax-efficient plans than if assets were put into their hands absolutely, as well as helping to protect assets.

Make full use of allowances and reliefs

Inheritance Tax (IHT) allowances and exemptions to be aware of include:

- £3,000 annual allowance and any unused allowance from last year
- £250 per individual donee
- gifts in connection with marriage (limits may apply)
- lifetime gifts that are 'normal expenditure out of income'

Take advantage of IHT-efficient investment structures

There are numerous types of structure that offer the ability to reduce your estate for IHT purposes while still retaining the benefit of income or underlying capital. The amounts can be adapted to your personal needs and wishes and, for some of these investments, a portion of the amount transferred reduces the value of your estate immediately.

Check your PAYE tax code

HM Revenue & Customs (HMRC) may have included an estimate of your unearned income that means you will pay tax on that income earlier than you would if it was assessed through your self-assessment tax return. You can ask HMRC to remove this estimated income and also correct any other errors.

A PURPOSEFUL AND INFORMED PLAN

Tax planning is inherently complex and arduous. If you would like to discuss any of these opportunities, we'll take the time to understand your needs and wishes and recommend solutions that are tailored to your needs. To review your situation, please contact us.

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