

Tax matters

Reducing the taxman's take

To minimise the tax you pay, it's important to be fully aware of the choices you can make before you make them, so planning ahead and taking professional financial advice is essential. With real-terms tax increases the prospect for the foreseeable future, it makes sense to utilise every available tax relief.

HM Revenue & Customs (HMRC) creates many legitimate opportunities for you to reduce the amount of tax you pay. However, you may not be aware of them all, or you may be unsure of how to take advantage of them.

Here are examples of the ways in which legitimate planning may save you money by reducing your tax bills.

DO YOU HAVE THE CORRECT PAYE TAX CODE?

PAYE tax codes can be incorrect when issued. HMRC may have included an estimate of your unearned income, which 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.

COULD YOU USE THE NEW TRANSFERABLE AMOUNT OF PERSONAL ALLOWANCE?

In tax year 2015/16, married couples and registered civil partners can share some of their personal allowance between them. The unused allowance of one partner can be used by the

other, meaning an overall tax saving for the couple. The amount you can transfer is capped at £1,060 for tax year 2015/16 (10% of the personal allowance), and a transfer is not permitted if either partner is a higher or additional rate taxpayer.

ARE YOU OVERPAYING NATIONAL INSURANCE CONTRIBUTIONS (NICS)?

If you have more than one job, you may overpay NICS during the tax year. You can then reclaim any overpaid NICS from HMRC after the end of the tax year. However, you could prevent the overpayment in the first place by deferring payment of NICS on one of your jobs by sending HMRC a completed form CA72A.

DO YOU AND YOUR NEW SPOUSE BOTH OWN SEPARATE PROPERTIES?

If you are getting married or entering into a civil partnership, and you both own separate properties which you continue to occupy for some periods, you need to nominate one of them as your main home within two years of your marriage or registered civil partnership. Once married, you can have only one main home

between you for tax purposes. So nominate the one that is likely to make the best use of your Capital Gains Tax (CGT) property exemption, otherwise HMRC will designate the property that you occupy the most as your main residence.

If you own more than one residential property, have you informed HMRC which of your properties should be treated as your main home for tax purposes?

The property that has always been your main home is free of CGT. Any other property where you have lived for part of the time will attract a tax exemption for the periods you have lived there and have elected for it to be your main home. If a property has been your nominated main home at any time, the gain for the last 18 months of ownership (36 months if moving into care) is free of tax, even if you do not live there during that final period. The position may become even more complicated if you have an overseas property.

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ARE YOU PAYING AN EXTRA CHILD BENEFIT TAX CHARGE?

Child Benefit still continues to be paid to everyone, but if you're a higher-income family, you'll have to pay extra tax if you choose to keep getting it. If your income lies between £50,000 and £60,000, the Child Benefit tax charge will be equivalent to 1% of the child benefit for every £100 of income over £50,000. The tax charge applies to the higher earner, irrespective of who claims the benefit. To avoid the tax charge, you could either stop claiming Child Benefit or reduce your income below £50,000. If your income is over £60,000 a year, you will be subject to a tax charge to claw back the full amount of the benefit.

HAVE YOU TAKEN ADVANTAGE OF YOUR 2015/16 INDIVIDUAL SAVINGS ACCOUNT (ISA) ALLOWANCE?

The maximum annual amount you can save or invest in an ISA is £15,240 (tax year 2015/16) which is free of income and capital gains. You can put the whole amount into a Cash ISA, a Stocks & Shares ISA or any combination of the two. You may also be eligible for a Help to Buy ISA if you are saving to buy your first home. The Government will boost your savings by 25%, so, for every £200 you save, you'll receive a government bonus of £50. The maximum government bonus you can receive is £3,000. In your first month, you can deposit a lump sum of up to £1,200. The minimum government bonus is £400, meaning that you need to have saved at least £1,600 into your Help to Buy ISA before you can claim your bonus. When you are in the process of buying your first home,

your solicitor or conveyancer will apply for your government bonus.

COULD YOU CONTRIBUTE TOWARDS A TAX-EFFICIENT JUNIOR ISA?

During tax year 2015/16, you can contribute up to £4,080 into your child's Junior ISA (JISA). 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 £4,080 limit is not exceeded. 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, although a CTF can be switched to a Junior ISA.

WILL YOUR ISA BALANCE PASS TO YOUR SPOUSE OR REGISTERED CIVIL PARTNER ON YOUR DEATH?

For deaths on or after 3 December 2014, a surviving spouse can increase their tax-exempt ISA savings by the value of the deceased partner's ISA balances. For example, if a husband died on 5 December 2014 leaving ISA balances of £100,000, his wife can invest up to £115,240 in an ISA for tax year 2015/16 (£100,000 plus the normal ISA limit of £15,240). Previously, savings in ISAs lost their tax-efficient wrapper on death.

HAVE YOU MADE A WILL, AND, IF SO, WHEN WAS THE LAST TIME YOU REVIEWED IT?

If you die without making a Will, your assets will be divided between your relatives according to the intestacy rules. This will be after Inheritance Tax

(IHT) is paid at 40% on any value above £325,000 (or up to £650,000 if a transferable nil rate band is available) that goes to anyone other than your spouse or registered civil partner (an additional exemption will be available from 6 April 2017 if your main residence passes to your children or grandchildren). If you have no surviving relatives, the whole of your estate will go to the Crown.

ARE YOU PLANNING TO LEAVE ANY OF YOUR ESTATE TO CHARITY?

By leaving at least 10% of your net estate to charity, after the deduction of the £325,000 nil rate band, this will reduce the IHT rate on your taxable estate from 40% to 36%. The exact calculation of your net estate may be complicated, so it's important to obtain professional financial advice when drawing up or amending your Will.

COULD YOU MAKE MONETARY GIFTS FROM YOUR CAPITAL RESOURCES?

If you make gifts totalling £3,000 each tax year from your capital resources, these gifts are free of IHT. In the event that you forget to make your £3,000 gift one year, you can catch up in the next tax year by giving a total of £6,000. Both you and your spouse or registered civil partner can each give £3,000 every tax year in addition to gifts you make out of your regular income.

COULD YOU MAKE USE OF THE IHT MARRIAGE EXEMPTION FOR GIFTS?

If your son or daughter is about to marry or register a civil partnership, then you and your spouse or civil partner can each give them



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£5,000 in consideration of the marriage, and the gift will be free of IHT. This is in addition to any smaller gifts you make out of your regular income each year. The marriage exemption can also be combined with your £3,000 a year exemption to allow you to make larger exempt gifts. The IHT-free gift you can make on the occasion of a grandchild's wedding is £2,500, and registered civil partnerships benefit from the same exemptions.

ARE YOU CONTRIBUTING TO YOUR EMPLOYER'S PENSION CONTRIBUTIONS TO SAVE NICs?

If your employer pays a contribution directly into your pension scheme, they receive tax relief for the contribution and there are no NICs to pay – saving both your 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.

ARE YOU TAKING ADVANTAGE OF YOUR ANNUAL ALLOWANCE FOR MAKING PENSION CONTRIBUTIONS?

Your annual allowance for tax year 2015/16 is £40,000 (up to £80,000 for some people) plus any unused allowance brought forward from the previous three tax years. This allowance must cover any pension contributions you make yourself and any contributions paid for you by

your employer. Contributions made in excess of your annual allowance will attract a tax charge at your marginal tax rate. Commencing from tax year 2016/17, the annual allowance for those with income above £150,000 is to be reduced on a tapering basis so that it reduces to £10,000 for those with income above £210,000. For every £2 of income above £150,000, an individual's annual allowance will reduce by £1 down to a minimum of £10,000.

COULD YOU CARRY FORWARD ANY UNUSED ANNUAL PENSION ALLOWANCES?

You can carry forward unused allowances from the three previous tax years and use these to cover pension contributions greater than the current year's annual allowance. The allowance in tax year 2012/13 and 2013/14 was £50,000, and in tax year 2014/15 it was £40,000. The carry forward of unused annual allowances will continue to be available when the tapered reduction is introduced, but carry forward in future years will be based on the unused tapered annual allowance.

WILL YOU REALISE CAPITAL GAINS OR LOSSES IN THIS TAX YEAR?

If you realise capital gains and losses in the same tax year, the losses are offset against the gains before the capital gains exempt amount (£11,100

tax year 2015/16) is deducted. So losses will be wasted if gains would otherwise be covered by the exempt amount. It may be appropriate to consider postponing losses until the following tax year or, alternatively, realising more gains in the current year.

WANT TO DISCUSS ANY OF THESE OPPORTUNITIES?

Tax planning can be a complex area, especially if you have several sources of income. Different approaches will suit different individuals. The start of a New Year is the perfect time to review your current situation, so, if you would like to discuss any of these opportunities, please contact us for further information. We'll take the time to understand your needs and wishes, and recommend appropriate solutions that are tailored to your needs.

