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# Broadcast

FACTSHEET: TAXATION

SPECIAL ISSUE

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# 30 Ways To Reduce Your Tax Bill


**Sensible tax planning is an essential tool in making the most of your finances and helping your business's profitability.**

**Keeping your tax bill to a minimum is not a matter of aggressive or complex tax schemes, but rather of identifying which of the many tax reliefs and allowances specifically granted by law are available to you.**

**From ISAs to capital allowances, this guide contains 30 essential ways of saving tax – for you, your family and your business. Contact us to discuss how we can help you take advantage of them.**

## PERSONAL TAX & SAVINGS

### 1. Check your PAYE tax code

Many people can go for years inadvertently paying the wrong amount of tax because their tax code is incorrect. You can help to avoid this by checking the series of numbers and letters in your tax code to ascertain whether the correct code is being applied.

See **www.gov.uk/tax-codes** for more details, or contact us for advice.

### 2. Maximise personal allowances...

Ensure that you are making the most of the tax-free personal allowance (PA), which for 2016/17 is £11,000. If your spouse or partner has little or no income, consider transferring income (or income-producing assets) to them to ensure that they are able to make full use of their PA.

Care should be taken to avoid falling foul of the settlements legislation governing 'income shifting'. Any transfer must be an outright gift with 'no strings attached'. Please contact us before taking action.

Eligible couples may also want to consider transferring part of their personal allowance. Up to £1,100 of an individual's personal allowance may be transferred by eligible spouses and civil partners to their partner, where neither pays tax at the higher or additional rate.

### 3. ...and minimise the income tax rate

Similarly, it is costly for one spouse or civil partner to pay income tax at 40% or even 45% while the other pays tax at only 20%. Where one spouse or civil partner has a lower marginal tax rate, consider transferring income-producing investments into his or her name. This may include shares, let property, bank deposits, etc. (but see above).

### 4. Preserve allowances by donating to charity

If you or your spouse or partner are receiving child benefit, and either of your incomes are expected to be £50,000 to £60,000, one of you will have to pay tax – the High Income Child Benefit Tax Charge. The amount of the charge depends on the total child benefit received and the extent to which 'adjusted net income' exceeds £50,000. Making donations to charity through Gift Aid can reduce your taxable income to below the threshold at which you would start to lose out. This is also important for individuals with incomes just above £100,000, as the PA is reduced by £1 for every £2 of income over this figure.

### 5. Pay into a pension scheme

Investing in a company or personal pension scheme may afford tax breaks on your personal pension contributions. For taxpayers with adjusted net income above £100,000, maximising pension contributions (within limits – see below) may allow you to obtain relief at the effective rate of 60%. Pension contributions can be made at up to 100% of relevant earnings, subject to the annual allowance, which is currently £40,000. Any unused allowances may be carried forward for up to three years. From April 2016 those with adjusted income (including the value of any pension contributions) above £150,000 will have their annual allowance tapered away to a minimum of £10,000.

## 6. Consider a salary sacrifice arrangement

Sacrificing a proportion of your salary in return for a non-cash benefit can reduce your national insurance contributions (NICs) bill. In some cases salary sacrifice arrangements can benefit both employer and employee, for example when part of an employee's remuneration shifts from cash (on which PAYE tax and NICs are due) to non-cash benefits that are wholly or partially exempt from tax and NICs. This may affect your entitlement to some benefits – please contact us for details.

## 7. Don't forget the children

All children have their own PA, so income of up to £11,000 will escape tax this year.

Income generated by parental gifts is subject to a limit of £100 (gross) per parent, unless the child has reached 18, or married.

## 8. Make the most of tax-free parental gifts

Consider investing parental gifts to produce tax-free income, or accumulate income, or in a cash or stocks and shares Junior ISA (JISA). The £100 limit does not apply to gifts into Child Trust Funds, JISAs or National Savings Children's Bonds.

## 9. Use your capital gains tax (CGT) allowance

Make the most of your CGT exemption limit each year (£11,100 in 2016/17). It may be possible to transfer assets to a spouse or civil partner or hold them in joint names prior to any sale to make full use of exemptions. Individuals with a particularly large gain may want to realise it gradually to take full advantage of more than one tax year's allowance.

However, you should only consider spreading a disposal of, for example, shares if you will not be putting your gain at risk in the meantime.

## 10. Invest in an ISA

Up to £15,240 can be invested in an ISA during 2016/17, while JISAs, for those aged under 18 who do not have a Child Trust Fund account, allow investment of up to £4,080.

In a bid to increase flexibility for savers, regulations have been introduced to enable ISA savers to withdraw and replace money from their ISA without it counting towards their annual ISA subscription.

And don't forget, Help to Buy ISAs are available from a variety of banks and building societies and offer unique incentives for those saving for a first home.

From 6 April 2017 any adult under 40 will be able to open a new Lifetime ISA. They can save up to £4,000 each year and will receive a 25% bonus from the Government for every pound they put in, up to the age of 50. Funds can be used to save for a first home or for retirement.

# TAX AND PROPERTY

## 11. Claim landlord expenses

If you rent out property you can deduct a range of expenses from the rental income. These include: water rates; council tax; gas and electricity; maintenance and repairs to the property (but not improvements, which may instead score for relief against any future capital gain); landlord insurance; costs of services, including the wages of gardeners and cleaners; letting agency and accountancy fees; ground rents and service charges; and other direct costs such as phone calls, stationery and advertising for new tenants.

The 10% wear and tear allowance has now been replaced with a new relief that allows all residential landlords to deduct the actual costs of replacing furnishings.

Other measures have also been introduced which affect owners of second properties. From 1 April 2016, higher rates of Stamp Duty Land Tax (SDLT) are charged on purchases of additional residential properties (above £40,000), such as buy-to-let properties and second homes. Similar changes apply to the Land and Buildings Transaction Tax (LBTT) in Scotland. These higher rates will be three percentage points above the current rates of duty.

Note that from April 2017 landlord tax interest relief will see a phased reduction over four years, which will eventually bring the effective rate of relief down to the basic tax rate of 20%.

## 12. Claim tax deductions for furnished holiday lets

Did you know that some let properties can qualify for some important tax concessions? The Furnished Holiday Lettings (FHL) rules allow holiday lettings of UK properties that meet certain conditions to be treated as a trade for some specific tax purposes. Unlike other domestic lettings, the expenses can include capital allowances on furniture and kitchen equipment. The income counts as earnings for pension contribution purposes, and there are other advantages relating to the disposal of such properties. Please contact us to find out more.

## 13. Rent out a room

Under the 'rent a room' scheme, income from letting furnished rooms in your main residence is exempt from tax if the gross annual rent does not exceed £7,500 (£3,750 if you share the income) in 2016/17. If you are letting to lodgers who live as part of the family, there will be no loss of capital gains exemption. Otherwise, there may be some restriction.

A lodger can occupy a single room or an entire floor of your home. However, the scheme doesn't apply if your home is converted into separate flats that you rent out, or if you let unfurnished accommodation in your home.

# TAX AND BUSINESS

## 14. Review your business structure

The structure of your business can have a significant impact on your annual tax bills. While in the early years of a business it may be advisable to operate as a sole trader or partnership, as profits increase it may be more beneficial to form a limited company. Please talk to us about the best option for your business.

## 15. Don't forget to reclaim input VAT on petrol

Do you reimburse employees who use their own vehicles and pay for their own fuel at the HMRC approved mileage rates? If so, then don't forget to reclaim the VAT applicable to the deemed fuel element of the mileage rate. You will need to ensure each employee submits a valid VAT receipt in support of the claim.

## 16. Review your capital expenditure

Review your capital expenditure to maximise claims for capital allowances. From 1 January 2016 the majority of businesses are able to claim a 100% Annual Investment Allowance (AIA) on the first £200,000 of expenditure on most types of plant and machinery (except cars). Transitional rules apply.

## 17. Consider the timing of expenses

Delaying expenditure to save money or aid cash flow might not be the most tax-efficient approach. By incurring expenses shortly before the year end rather than after, relief for those expenses is obtained 12 months earlier.

## 18. Make the most of losses

You may be able to turn your losses around by carrying them forward to set against future profits, or setting them against other income for immediate relief. We can review loss relief claims to ensure that they are as tax-efficient as possible – please contact us to discuss this further.

## 19. Utilise tax reliefs on capital gains

Companies pay corporation tax on chargeable gains. Although companies do not have the benefit of an annual allowance exemption, indexation relief provides some protection against inflationary gains. Making the most of tax reliefs on capital gains, such as roll-over relief for business assets, can defer the corporation tax bill for companies and the capital gains tax bill for unincorporated businesses.

## 20. Consider a company van

Have you considered a company van? The taxable benefit for the unrestricted use of company vans is £3,170 plus a further £598 of taxable benefit if fuel is provided by the employer for private travel. A 'van' for this purpose includes some extended cab pick-ups, complete with off-road styling, air conditioning and leather upholstery!

# ESTATE PLANNING

## 21. Write a Will and keep it up-to-date

A well-drafted Will can ensure that the wealth you have built up during your lifetime benefits the right people on your death – and it can also be structured to save tax. However, you must review it regularly to ensure it reflects changes in family and financial circumstances as well as changes in tax law.

We can help to reduce your tax liability and secure your family's long-term financial future, through a tax-efficient Will. Please contact us for further assistance.

## 22. Utilise inheritance tax (IHT) exemptions

You should make the best use of IHT allowances, including the annual exemption, which allows you to give away cash or assets up to a total value of £3,000 a year without incurring any taxes. Any regular gifts you make out of your after-tax income, not including your capital, are also exempt from IHT (providing you have enough income left after making the gifts to maintain your normal lifestyle).

Most gifts made during your lifetime will be entirely exempt from IHT if you live for seven years after making the gift. These sorts of gifts are known as 'Potentially Exempt Transfers' (PETs).


Taxable gifts made up to seven years before death are added back into your estate and tax is calculated on the inclusive value. But to the extent that such lifetime gifts made between three and seven years before death exceed the tax threshold, the associated tax is discounted by up to 80%.

Don't forget, small gifts of up to £250 a person per tax year are exempt, while parents can each give cash or gifts worth up to £5,000 to their children as a wedding/civil partnership gift (grandparents and great grandparents can give up to £2,500 and others can give up to £1,000).

## 23. Update your 'expression of wishes'

If an individual has not bought an annuity, a defined contribution pension fund remains available to pass on to selected beneficiaries. IHT can be avoided by making an 'expression of wishes' to the pension provider suggesting to whom the funds should be paid.

Prior to 6 April 2015 there were, however, other tax charges in many situations. In some cases tax at 55% of the fund value was payable.

Where the first payment to a beneficiary is made on or after 6 April 2015, there are now significant exceptions from the tax charges. It therefore may be beneficial to spend your assets outside your pension fund (thus potentially saving 40% IHT) and potentially leaving more of your pension fund to your family.

## 24. Leave a gift to charity

The full rate of IHT is payable at 40% where your taxable estate value is in excess of £325,000. However, gifts made to one or more qualifying charities can reduce the rate of IHT payable on your estate.

If you plan to give at least 10% of your net estate to charity, the rate of tax levied on some or all of the rest may be reduced to 36%.

## 25. Skip a generation

Your children may be grown up and financially secure. If your assets pass to them, you will be adding to their estate, and to the IHT which will be charged on their deaths. Instead, consider leaving something to your grandchildren, thereby forcing the IHT charge to 'skip' a generation.

## 26. Claim a partner's unused IHT allowance

Married couples and civil partners can boost their IHT-free allowance by claiming a proportion of any 'nil-rate band' their deceased partner has not used. This can increase the IHT threshold of the second partner from £325,000 to a maximum of £650,000 for 2016/17.

From 6 April 2017 an additional nil-rate band will be introduced for each individual to enable a 'family home' to be passed wholly or partially tax-free on death to direct descendants. Initially set at £100,000 for 2017/18, the allowance will rise by £25,000 annual increments to reach up to £175,000 in 2020/21.

# RETIREMENT PLANNING

## 27. Check your state pension entitlement

Whatever your pension arrangements, planning to maximise the amount you will receive in retirement is crucial. As a first step, check that your NICs are up to date and, if necessary, pay voluntary NICs to ensure that you receive the full state pension.

From 12 October 2015 to 5 April 2017 it may be possible to pay Class 3A voluntary NICs in order to obtain extra additional state pension, up to a maximum of £25 per week – rates will vary according to age.

You can check whether you are likely to have a gap in your NICs record by requesting information about your State Pension forecast from the Future Pension Centre: **www.gov.uk/future-pension-centre**.

## 28. Carry forward unused allowances

Where pension savings in any of the last three years' pension input periods are less than the annual allowance it may be possible to carry forward the unused relief from that year.

But note that where premiums in one year are less than the annual allowance, and this is followed by premiums exceeding the annual allowance in a later year, the unused relief carrying forward is reduced. The rules are complex so please talk to us before taking action.

## 29. Stop paying national insurance

If you are planning to defer your retirement and continue working, you no longer need to pay NICs when you reach the State Pension Age (SPA), but you will need to show your employer proof of age. If you are self-employed, you stop paying Class 2 contributions as soon as you reach SPA and Class 4 contributions from the start of the tax year after the one in which you reach SPA. You do not receive a state pension until you make a formal claim. If you do not claim, the pension will be deferred.

## 30. Consider your retirement options

Following radical changes to the pension rules in April 2015, individuals now have complete freedom over their pension pot and how they choose to generate an income in retirement. Whilst good news for retirees, this increased flexibility means it is all the more important to seek expert advice and carry out a thorough review of the options available to you; your decisions now could affect the quality of your retirement for years to come. And don't forget, although you are no longer required to purchase an annuity, if you choose to do so, you should always shop around for the best deal.

## My tax planning checklist

- [ ] Ensure that tax rates are as low as possible across my family
- [ ] Check my PAYE code and understand the tax rates and allowances applicable to me
- [ ] Utilise my ISA allowance and consider other tax-privileged saving opportunities
- [ ] Review my pension arrangements
- [ ] Claim capital allowances for expenditure on business equipment
- [ ] Plan to minimise the tax take, including VAT and capital gains tax
- [ ] Review my estate plan, my Will and 'expression of wishes' for my pension plan(s)
- [ ] Put in place a tax-efficient gifting strategy
- [ ] Discuss with my accountant how to minimise the cost of the company car
- [ ] Contact my accountant to discuss these and other strategies to help minimise my tax liability

## HOW WE CAN HELP

This guide is merely a starting point, designed to highlight key tax planning opportunities. As your accountants, there are many ways in which we can help to minimise the tax burden.

**Contact us for more advice about:**

- Minimising your business taxes
- Making the most of capital allowances
- Reducing company car costs
- Improving your financial position by accelerating expenditure into the current year, or deferring income into the next.

**We can also help you to:**

- Make the most of personal allowances
- Save money tax-efficiently
- Check your pension arrangements are tax-efficient
- Reduce the inheritance tax on your estate.

**We hope you find this guide useful – please contact us for more information and advice.**