# YEAR-END PLANNING

# UPDATED FOR

# 2014/15

**Tolley®Guidance**

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‘Every man is entitled if he can to order his affairs so that the tax attaching under the appropriate Acts is less than it would otherwise be’: the celebrated words of Lord Tomlin in the Duke of Westminster case (Duke of Westminster v CIR, HL 1935, 19 TC 490). Whilst we are currently seeing in our society a huge backlash against the more aggressive form of tax avoidance, usually involving the use of marketed schemes, the Duke of Westminster maxim still holds true when applied to the kind of widely accepted tax planning ideas outlined in this article.

Tax planning should always be an ongoing process, but life tends to get in the way. In many cases it will be towards the end of the tax year that people turn their minds to tax. This is not such a bad thing as one has by then a pretty good idea of the new things the following tax year has in store. This is not so much the case in 2015 as we may well have a new Government in the UK after 7 May (General Election day), and who knows what changes it may wring; this doesn’t prevent action being taken before 6 April but is something to be borne in mind. For example, it is possible that the 50% rate of income tax will be restored for those on high incomes, but at the time of writing this can only be pure guesswork.

Whereas the taxable income of many individuals will remain fairly constant from one tax year to the next, a significant number of people will find that their incomes fluctuate from year to year. This is sometimes caused by a one-off receipt, for example compensation of a taxable nature or a bonus and sometimes by fluctuating business profits. One feature of year-end tax planning is to arrange wherever possible the timing of income receipts and allowable expenditure so as to even out taxable income and avoid particularly high tax rates in any one year. There is, for example, a 20% jump in tax rates once the basic rate limit is exceeded. This uplift is increased to 22.5% where dividend income is involved.

The basic rate limit is £31,865 for 2014/15, which means that for those born after 5 April 1948 higher rate tax is payable on income above £41,865 (the basic rate limit plus the £10,000 personal allowance). It has already been announced that the basic rate limit for 2015/16 will be £31,785 and the personal allowance will be £10,600.

Where an individual has his own limited company he has the option of arranging the payment of salary and/or dividends so that they fall into the most advantageous tax year. As regards salary, it should be noted that if an employee becomes entitled to a payment before he is physically paid the money, the date of entitlement is treated as the date of receipt and the payment is taxable at that point. In all cases the company's own tax position does need to be considered as well.

The timing of taxable income can be equally achieved by bringing forward or delaying the incurring of deductible expenditure. One example is the payment of contributions to a registered pension scheme, which save tax in the tax year in which they are made. Care must be taken to avoid overloading the payment of contributions into any one year such that an annual allowance charge arises. This will occur if total contributions exceed the annual allowance of £40,000. If the maximum allowance has not been used in each of the preceding three years, the amount not utilised can be carried forward to augment the current year's allowance. The annual allowance is measured against the gross equivalent of contributions

made in the pension input period ending in the tax year; in many cases the pension input period will be coterminous with the tax year, but this is by no means always the case and it is important to check with the pension provider.

Another example of expenditure that saves tax at higher and additional rates is Gift Aid payments to charity. If donations would be made anyway in 2015/16, possibly by monthly direct debits, it is worth considering whether to make them before the end of 2014/15 instead.

If self-employed or in partnership it might be possible to accelerate planned capital expenditure qualifying for the annual investment allowance (AIA). The AIA has been temporarily increased to £500,000 for expenditure incurred after 5 April 2014. It will revert to £25,000 for expenditure incurred after 31 December 2015. Complex apportionment rules apply to determine the maximum for a period of account straddling either of those dates, and these should not be overlooked. If the whole of the available allowance is not used in a period of account the unused balance cannot be carried forward, so it is always worth making as full a use of the allowance as possible (subject always to normal commercial considerations).

The use of trading losses is also important. A trading loss for 2014/15 in an established business can normally be set against general income for that year or the previous year, but could alternatively be carried forward against the following year's trading profits (if any) so as to reduce taxable income for 2015/16 instead. When deciding on the use of losses, the availability of the personal allowance must also be taken into account; if losses reduce taxable income for a year to below the level of the personal allowance, the allowance will be wasted to that extent.

In a year in which there is little or no taxable income (possibly due to trading losses), it might be worthwhile to realise at least sufficient savings income, if possible, to make use of the 10% starting rate band for savings (£2,880 for 2014/15, though due to increase to £5,000 for 2015/16 with the 10% rate itself to be reduced to nil).

There are certain cases in which each additional pound of income carries an unusually high marginal rate of tax. One example is where income is between £100,000 and £120,000. The personal allowance is reduced by half of the excess over £100,000, so that any such excess not only incurs higher rate tax but results in a loss of allowances as well. The marginal rate is 60% on non-dividend income and 37.5% on net dividends. Due to the clawback of child benefit, a similar problem arises for those with income between £50,000 and £60,000 and in receipt of child benefit (or whose partner is in receipt of child benefit). The movement of income out of these bands and into a different tax year can represent a substantial tax saving.

As far as capital gains tax is concerned, thought should be given to utilising the annual exemption (£11,000 for 2014/15) by crystallising gains on investments. If gains in excess of the exemption have already arisen, losses could be crystallised instead, particularly if, due to the level of income, any of the gains would be chargeable at the higher rate of 28% instead of at the lower rate of 18%. Otherwise, sales towards the year end that will produce substantial gains might be deferred until after 5 April. This would defer the due date of

payment of tax by one year and would thus give a longer period over which the fund to meet the tax liability could be invested. If income levels fluctuate, it is preferable to realise gains in a tax year in which they will be chargeable at the lower rather than the higher rate. Decisions on selling investments should not, however, be taken with only tax considerations in mind.

TolleyGuidance includes more detail on the strategies mentioned above and other year-end planning ideas for income tax, capital gains tax and national insurance contributions. It also covers overseas aspects and information on making claims and elections. Tolley's Tax Planning includes chapters on year-end planning for all the main direct taxes including corporation tax.