Wilkins • Kennedy

Chartered Accountants & Business Advisers

Year End Personal Tax Planner 2018

Saving tax for the fiscal year ending 5 April 2018

1. Introduction

This booklet seeks to identify the main means by which you can reduce your tax liability before the end of the current tax year. To be of the widest possible use, it is written in general terms and specific account will therefore need to be taken of your own individual circumstances. References to spouse in this booklet include civil partners. If you require any further information or would like to implement any of the points described in this booklet, please contact the partner or manager that you normally deal with at Wilkins Kennedy LLP. With regard to advice on investments you are recommended to seek advice based on your particular circumstances and financial profile from an Independent Financial Adviser. The Chancellor's Spring Statement is on 13th March 2018 and this may see announcements which affect the matters covered in this booklet.

2. Tax Shelters

2.1 Pension Contributions

Pension contributions by individuals generally attract tax relief subject to the following limits:

a) £3,600 for people with no earnings or earnings of up to £3,600 per annum;

b) the person's relevant earnings up to a maximum of £40,000 per annum but reducing for those earning more than £150,000 pa from £40,000 down to £10,000 (for those earning between £150,000 and £210,000 pa).

The overall lifetime allowance for an individual's pension fund for 2017/18 is £1m.

Tax relief is available at the person's marginal rate of tax and there is a facility to carry forward unused annual allowances for up to three years. Unused allowances for 2014/15, 2015/16 and 2016/17 are available to carry forward to 2017/18. This option is however, only available if the individual was a member of a registered pension scheme in the tax year from which the relief is to be carried forward. There are significant implications for high earners in respect of pension planning. In the light of this a review should be undertaken of your 2017/18 position at the earliest opportunity particularly in the following situations:

a) total income expected to exceed £150,000 where tax is payable at 45%. Pension contributions within the above limits will receive tax relief at the marginal rate;

b) total income expected to exceed £100,000 leading to a loss of all or part of the 2017/18 personal allowance to determine if pension planning can be taken to reduce income below £100,000. Individuals with total income between £100,000 and £123,000 can receive effective tax relief on pension contributions of up to 60%;

c) where earnings in 2017/18 are more than £40,000, then once the maximum 2017/18 payment has been made, it is possible to use some or all of any unused allowances from 2014/15 onwards;

d) where you are over the age of 55, a review may be advisable to consider the position of taking a tax free lump sum from your pension scheme at an early stage;

e) if you operate as a sole trader or through a company and pension contributions have not previously been maximised. The objective is to utilise part or all of the 2017/18 allowance and previous years unused allowances;

f) in light of recent changes to the lifetime allowance and reduction in tax deductible pension contributions for those with earnings above £150,000, it is advisable to consider the pension options available prior to 5 April 2018. This also may involve looking at the possibility of Fixed and Individual Protection 2016. Advice should be taken from your Independent Financial Adviser.

2.2 Enterprise Investment Scheme ("EIS")

Income tax relief at 30% is available on new subscriptions of ordinary share capital in unquoted trading companies providing that all the conditions of the EIS scheme are met. The maximum investment qualifying for relief is £1m. Capital gains on the realisation of the EIS investment are tax free providing the EIS shares are held for three years, and income tax relief (which has not subsequently been withdrawn) has been received on the cost of the shares.

It is also possible to defer Capital Gains Tax ("CGT") by making an investment in EIS shares. The investment must be made within a period of one year immediately preceding or three years immediately following the date when the capital gain was realised. If the EIS shares are held on death the deferred gain does not crystallise. An additional benefit is that EIS shares held for more than two years usually qualify for business property relief for Inheritance Tax purposes so that no Inheritance Tax is due on death. There are many conditions to be satisfied to secure this relief and advice should be taken based on your particular circumstances.

2.3 Seed Enterprise Investment Scheme ("SEIS")

Individuals investing in qualifying companies meeting the SEIS rules qualify for 50% income tax relief. The maximum annual investment limit is £100,000 and there is a cumulative investment limit for companies of £150,000 in any three year period. SEIS also offers a CGT exemption in respect of 50% of chargeable gains realised in 2017/18 (up to a maximum exemption of £50,000) and reinvested in SEIS in 2017/18. Capital gains on the realisation of the SEIS investment are tax free providing income tax relief (which has not subsequently been withdrawn) has been received on the cost of the shares and they have been held for at least three years.

2.4 Individual Savings Accounts ("ISAs")

Each person in a marriage or civil partnership can invest up to £20,000 in an ISA for 2017/18. Income and gains are free of UK income tax and CGT. Children aged 16 or over can also invest in an ISA.

For children under the age of 16 who live in the UK and who did not qualify for a Child Trust Fund, parents, family and friends can pay up to £4,128 into a Junior ISA account. The fund can be invested in cash or shares, or a combination of both. The fund is only available to the child after reaching age 18. Income and gains are free of UK tax.

From 1 December 2015 it has been possible for first time house buyers to open a Help to Buy ISA. This is available for UK resident individuals aged 16 and over saving for their own home where they have never owned any interest in property in the UK or overseas. Up to £1,200 can be saved for the first calendar month of saving and each month thereafter up to £200. On purchase of the person's first home the Government will pay a 25% bonus on accounts saved between £1,600 and £12,000. The home has to have a purchase price below £250,000 outside London and £450,000 in London. If funds for 2017/18 have already been invested in a cash ISA, then advice should be sought on whether funds can be transferred into a Help to Buy ISA. For more information go to the Government webpage Help to Buy ISA.

Since April 2017 individuals between the age of 18 and 40 are able to open a Lifetime ISA. Contributions of up to £4,000 per annum can be made, subject to a maximum of £20,000 being contributed to all ISA's in 2017/18. Savings up to age 50 attract a 25% bonus from the government. The funds can

be used all or in part to buy a first home worth up to £450,000 in the UK, or after the savers 60th birthday it can be taken tax free. If withdrawn before age 60 (and not used to buy a first house) then the government bonus is lost (and any interest or growth on this), and a 5% charge is levied.

2.5 National Savings Tax Free Investments

Investments in premium bonds (up to a maximum of £50,000) is tax free. There are currently no tax free Index Linked Savings certificates or fixed interest savings certificates on general sale. Children's bonus bonds continue to be tax free. Investment in premium bonds does not affect any other tax free investments held such as ISAs.

2.6 Friendly Societies

Tax free concessions are available on Friendly Society bonds. These must be held for at least ten years. The legislation permits an annual maximum contribution of £270.

2.7 Venture Capital Trusts ("VCTs")

30% income tax relief is available up to a maximum investment of £200,000 when you subscribe for shares in a VCT, which is basically a closed ended quoted investment vehicle looking to invest in small unquoted trading companies. Dividends and capital gains from the VCT are tax free. However, there is a clawback of income tax relief if the VCT is held for less than five years. Note that there is no tax relief for acquisition of VCT shares other than through subscription – this is likely to be reflected in the market price. For tax relief in 2017/18 the VCT shares must be issued to the subscriber on or before 5 April 2018. Capital gains cannot be rolled over into VCT investments.

2.8 Dividend Allowance

For 2017/18, all taxpayers can receive up to £5,000 in dividend income tax-free. This allowance covers UK and foreign company dividends (unless relevant foreign income for remittance basis taxpayers). From April 2018, the Dividend Allowance will reduce to £2,000.

2.9 £1,000 Personal Savings Allowance

For 2017/18 a basic rate taxpayer can receive up to £1,000 in savings income tax free. Higher rate (40%) taxpayers have a £500 allowance. Additional rate taxpayers do not receive a Personal Savings Allowance. This allowance covers bank interest income from Company/ Government bonds and interest distributions from authorised unit trusts. A careful review of investments and receipt of interest enables best use of the allowance.

2.10 £1,000 Tax-free allowances on property and trading income

For 2017/18 onwards a person can get up to £1,000 tax-free allowances for property or trading income. If you have both sources of income then a £1,000 allowance can be claimed for each. The allowances can be claimed by deducting from gross property or trading income through your Tax Return. However, if claimed, it is not possible to deduct any other expenses so the allowance is limited. The allowance is also not available for income from employment, a partnership or a company that you own. Also the allowance does not apply to income on which rent a room relief is claimed.

2.11 £7,500 Rent a Room Scheme Relief

The Scheme allows owner occupiers and tenant to receive tax-free rental income if you provide furnished accommodation in your only or main home. For the 2017/18 tax year the annual Scheme limit is £7,500.

3. Tax Planning Checklist

3.1 Wills

The Inheritance Tax consequences of trusts created by Wills has changed and many Wills will need to be reviewed or re-written. Sometimes changes can be made to preserve tax efficiency and to reduce the impact of Inheritance Tax on the trust fund. Wills also need to be reviewed in the light of the Chancellor's Finance Act 2008 legislation enabling a spouse's unused nil rate band to be transferred to the surviving spouse where the surviving spouse or civil partner dies on or after 9 October 2007. This obviates the need in many cases for nil rate band Discretionary Will Trusts.

3.2 Inheritance Tax

Inheritance Tax can be a heavy burden for even relatively modest estates. A number of past Budgets have seen changes designed to stop certain Inheritance Tax planning techniques. It is therefore important to review the current planning opportunities available on a regular basis and follow this up with the necessary action. Effective planning at the right time should enable the potential exposure to Inheritance Tax in a person's estate to be substantially mitigated.

The currently favourable "potentially exempt transfer" regime for lifetime gifts between individuals may be susceptible to a change of policy so it may be sensible to hasten any tax planning of this kind. However, the CGT implications of such gifts must be borne in mind. With assets that have declined in value, there is a window of opportunity to gift assets to the next generation, either directly or using a trust, with reduced exposure to CGT. A careful review of all assets and their values should be taken in formulating a plan of action to mitigate Inheritance Tax.

The transfer of assets between spouses can be beneficial as such transfers are generally exempt and may ensure that both spouses' nil rate bands for Inheritance Tax are fully utilised.

There are certain Inheritance Tax pitfalls which need to be avoided. For example, business property relief may in some cases be lost if any shareholders' or partnership agreement is not drafted properly.

If a family member has died recently consider whether a deed of variation will reduce any Inheritance Tax liability.

In certain circumstances trusts can usefully be set-up to assist in Inheritance Tax planning. Trusts can be used to pass wealth down the generations and to hold shares in family companies. Life cover and death in service benefits may be written under trust to mitigate tax liabilities, but the effectiveness of this will depend upon personal circumstances. Where assets have declined in value, nil rate band trusts (£325,000 for 2017/18) may be more attractive not least because any future growth in value will be contained within the trust structure. Trusts can, in appropriate circumstances, effectively be used in conjunction with investment bonds as part of an Inheritance Tax solution where a person can afford to give away capital. Both tax and investment advice from an Independent Financial Adviser is required to evaluate the appropriateness of such an arrangement.

Inheritance Tax is broadly charged on assets held at death and all gifts made within seven years of death. However, an individual can give up to £3,000 per annum away tax free even if he does not survive seven years. This exemption can only be carried forward for one year at a time, thus if you did not use the 2016/17 exemption you could gift £6,000 by the end of the tax year.

Additionally, any number of small gifts up to £250 can be given but not to the same person.

In addition, unlimited regular gifts by an individual out of income can be made free of Inheritance Tax, provided that the income is surplus to meeting normal living expenses. In this situation, the gifts are tax free even in the event of death within seven years. It is sensible to record such gifts as they are made to demonstrate that they qualify for this relief.

3.3 Capital Gains Tax ("CGT")

Husband and wife (other than non domiciled individuals claiming the remittance basis) each have a CGT annual exemption of £11,300 for 2017/18. Please review any disposals you have made since 6 April 2017 in order to ensure that you are fully using the exemption wherever possible.

If you have not utilised your annual exemption, please note that the previous method of crystallising gains by selling shares and repurchasing the next day ("bed and breakfasting") no longer works. Any shares sold and repurchased within a 30 day period will be matched, so the gain or loss that would otherwise have arisen on the shares will not be realised. Crystallisation of gains to use the annual exemption can, with careful planning, be achieved by selling shares and reacquiring them in an ISA. Alternatively your spouse may wish to repurchase the shares in his or her own name.

CGT is charged at either 10% (basic rate taxpayers) or 20% (higher rate taxpayers) for 2017/18. However, sales of residential properties or gains from carried interest are taxed at 18% for basic rate taxpayers and at 28% for higher rate taxpayers. A 10% tax rate applies to the whole or part of a gain up to a lifetime limit of £10m per individual if the disposal qualifies for Entrepreneurs' Relief. This relief will generally apply to gains arising on disposals of trading businesses and to gains arising on certain disposals of shares in trading companies. To maximise the benefit of Entrepreneurs' Relief, it is worth arranging for different members of your family to be partners of the business or shareholders and directors or employees of the company for at least one year prior to its sale.

A 10% tax rate also applies to the whole or part of a gain up to a lifetime limit of £10m per individual if the disposal qualifies for Investors' Relief. This relief will generally apply to gains arising on disposals of ordinary shares acquired on subscription in trading companies. The shares must have been subscribed for after 17th March 2016 and disposed of after 6th April 2019. The shares must be held for a minimum three year period by the original subscriber who is not an employee or director other than an unremunerated director at the time the shares are issued. There is no minimum shareholding requirement.

Where assets have fallen in value there is a window of opportunity to consider making gifts to family members with a much reduced or possibly nil CGT exposure. There may be the possibility of reorganising family shareholdings and the extraction of assets to shareholders tax efficiently.

Low asset values also assist in restructuring assets held within offshore structures for non – UK domiciled individuals. However, consideration of all the circumstances and other taxes is required as this is a complex area of tax legislation.

Where assets are standing at a loss it may be advisable to realise the loss either to set off against current year gains or to carry the loss forward. Where a loss on shares originally subscribed for in unquoted trading companies arises (or a negligible value claim is made) it may be possible to relieve this loss against income so that the effective rate of tax relief is as high as 60% – i.e. in the margin where the personal allowance is lost, rather than 10% or 20%. A number of rules must be satisfied to claim this relief. There is a cap on such losses for non EIS shares for 2017/18 of the greater of £50,000 or 25% of the individual's 'adjusted net income'.

Negligible value claims can be made even if the asset has not actually been sold or disposed of (e.g. in the case of a company going into administration) although such a claim should be made prior to the company being struck off.

If you have used your annual exemption, but your spouse has not, consider transferring shares or other assets to him or her prior to their disposal. Where the asset is a property where one spouse has lived there in the past, tax advice should be sought prior to the transfer.

Capital gains can be deferred by investing in EIS shares. An investment in EIS shares in the current year may enable CGT paid on gains in the previous three years to be reclaimed. This may shift capital gains from a year when 28%/18% tax was paid to a year when 20%/10% or no tax is payable. However, it is possible that at a future date the rate of CGT will be increased above current rates and so a deferral of gains in this way should be considered with caution.

3.4 Company Cars, Car Fuel and Company Vans

The taxable car benefit of a company provided car is calculated as a percentage of the list price plus the cost of accessories depending on industry agreed carbon dioxide emissions for the particular make and type of car. There is no discount for the amount of business mileage. If you are considering changing your company car it is worthwhile checking the carbon dioxide emission rating of the chosen model and the resultant taxable car benefit. Choosing a low emission or “hybrid” car can lead to significant tax savings.

The taxable benefit for employees for company provided fuel is calculated by multiplying £22,600 by the percentage used for the car benefit calculation. This system produces some winners and some losers and it is worthwhile reviewing your own circumstances to calculate the financial impact.

Tax savings may arise by choosing to pay personally for all fuel and to charge the employer with an agreed fuel rate for business mileage. HM Revenue & Customs have issued guidelines as to the amounts that can be paid by an employer without any liability to income tax or Class 1 NIC and the guideline figures will be accepted for VAT purposes.

The taxable benefit of a company provided van which is available for private use is £3,230 regardless of the age of the van. The taxable benefit of a company provided van is reduced to Nil if the van is made available to the employee mainly for business travel and the terms on which it is made available prohibit its private use, otherwise than for the purposes of “ordinary commuting”. It is also reduced to Nil if the van cannot in any circumstances emit CO2 by being driven. There is a flat benefit of £610, if an employee is provided with fuel by the employer for a company provided van that is available for private use. Again this benefit can be avoided if the employee pays for all fuel personally and charges the employer a mileage allowance which does no more than meet the cost of the fuel used for business travel.

3.5 Share Options

If you hold share options under either an approved or unapproved scheme careful consideration should be given to the timing of the exercise of the options and the disposal of the shares acquired to minimise the exposure to CGT and/or income tax.

3.6 Independent Taxation of Husbands and Wives and Civil Partners

Many taxpayers will have arranged their affairs to ensure that both spouses or civil partners are fully utilising their tax allowances and reliefs. However, in certain situations it may still be advisable to transfer income producing assets to the other spouse in order that income can be taxed at a lower rate. This, however, is subject to the “settlements” legislation.

3.7 Charitable Giving

Higher rate tax relief can normally be obtained on Gift Aid (no minimum amount) and on charitable Deeds of Covenant. The charity itself can also receive a generous tax rebate on such sums. Please consider therefore doing this before 5 April 2018. Gift Aid donations made in the 2018/19 tax year before the date you submit your 2017/18 Tax Return can be carried back to be treated as if it was paid in the 2017/18 tax year.

Additionally, if certain shares and securities (mainly quoted shares) are gifted to a UK charity then a deduction from income can be claimed for the market value of the shares at the date of the gift. Land can also, in certain circumstances, be gifted tax efficiently to a charity. No CGT arises on the gift to charity. This is a significant relief at the taxpayer's marginal rate of tax. Gifts made under

Gift Aid may be particularly tax effective, before 5 April 2018 for individuals who will lose all or part of their personal allowance because their income exceeds £100,000. The effectiveness of this will depend upon the individual's income position and following the abolition of tax credits on dividends from 6th April 2016 it is necessary for people making Gift Aid donations to ensure that sufficient tax has been paid to cover the tax recoverable by the charity.

3.8 Tax Efficient Borrowings

Tax relief is generally available on loans (not overdrafts) taken to invest in a partnership or a family company. In certain circumstances if you are a partner or shareholder in an unquoted company it may be possible to restructure your borrowings so as to obtain a higher rate of tax relief on more of your borrowings subject to the limit each year of the greater of £50,000 or 25% of the individual's 'adjusted total income'.

3.9 Children's Income

Children are entitled to a personal allowance (deductible against income) of £11,500 in 2017/18 providing their income is below £100,000. However, if the income of unmarried children under 18 derives from assets passed from the parents (other than interest on National Savings Children's Bonus Bonds), this will be taxed on the parents if it exceeds £100. Children's personal allowances can be used against income on gifts from persons other than parents.

If a parent is providing funds to enable their 16 or 17 year old child to invest in an ISA in 2017/18 it is important to note that the interest in the ISA will be taxable on the parent under the above rules.

Junior ISA's for children under the age of 16 are covered in 2.4.

A "bare trust" set up by parents for their children is no longer effective for income tax purposes. However, gains generated in a bare trust are generally taxable on the child and may be covered by the child's annual CGT exemption. Please seek professional advice before setting up a bare trust as this is an area which has been under review by HM Revenue & Customs.

If children are beneficiaries of trusts (other than those funded by parents) and have not used their annual personal allowances, the trustees should consider making distributions prior to 5 April 2018. This may enable the beneficiaries to obtain a tax repayment for 2017/18.

3.10 Children/Grandchildren: Personal Pension Plans

A parent, grandparent or other relative can make contributions into a personal pension plan for children. Contributions are paid net of basic rate tax. As the maximum gross contribution that can be paid into a personal pension plan is £3,600 per annum (where the child has no earnings), in effect the actual contribution by the parent or grandparent is £2,880. The Government adds the balance of £720 to the fund. The child will be unable to benefit from the pension until the appropriate age (55 years for personal pensions). For further details on personal pension plans please contact us.

3.11 The Residence Nil Rate Band (RNRB) – IHT Planning

The RNRB was introduced on 6 April 2017 and provides an additional nil rate band when a residence is passed on death to a direct descendant. The RNRB is as follows:

2017/18	£100,000
2018/19	£125,000
2019/20	£150,000
2020/21	£175,000

The RNRB is also available, subject to conditions, when a person downsizes or ceases to own a home on or after 8 July 2015 and assets of an equivalent value, up to the value of the RNRB are passed on death to direct descendants.

There is a tapered withdrawal of the RNRB for estates with a net value of £2m, with the allowance fully withdrawn where the estate exceeds £2.7m.

The RNRB provision should be considered when making or reviewing your will, and also after a death where a deed of variation may enable a claim for RNRB to be made. Lifetime planning should also be considered to ensure that the person's estate is below £2m thereby protecting the full RNRB. Given the complexity of the rules, advice should be taken on your particular circumstances.

4. Executors of Estates

Executors need to consider a number of issues for both Inheritance Tax and CGT where asset values have fallen since death. In particular, if "qualifying" investments (mainly quoted shares/unit trusts) are sold at a loss within 12 months of death, the value received on sale can be substituted in the Inheritance Tax account. The gross sale proceeds of all land sales within four years of death can also be substituted in the Inheritance Tax account. Such a claim may enable a refund of Inheritance Tax to be claimed by the executors, and prevent a loss arising for CGT purposes. Executors should take advice on the timing of asset sales, valuations and the tax implications of any proposed action.

5. Planning To Mitigate The 45% Tax Rate

A 45% marginal rate of income tax (38.1% for dividends) applies to individuals with a total income of more than £150,000. The following are some strategies to mitigate the impact of the tax for those who are self-employed or involved in a family business:

5.1 If operating as a sole trader or partnership business

a) consider restructuring your business to enable profits to be retained within a corporate vehicle with future distributions being designed to keep your income below £150,000. If your business were to be incorporated, the business profits will become subject to corporation tax of 19%. Income tax will only become payable to the extent that profits are paid out by way of salary or dividend.

In that situation, shareholder/directors have control over the amount of income they take from their company and can therefore avoid taking income which brings them into the 45% tax rate.

Incorporation of a business has commercial and other tax consequences which need to be taken into account before a decision is made to operate through a limited company, but the tax savings could be significant. Particular consideration needs to be given to the matter of goodwill and its value.

5.2 If operating through a company

a) consider the amount of remuneration and/or dividends taken in 2017/18. This is particularly important given the reform of the taxation of dividends which came in from April 2016. In particular for 2017/18 every individual has a £5,000 tax free dividend allowance, which as a minimum should be used annually. Please note that the dividend allowance will reduce to £2,000 per annum as from 6 April 2018;

b) consider borrowing funds from the company instead of taking dividends or salary although there are specific personal and corporate tax issues relating to loans;

c) consider paying interest on a directors' loan account to use the personal savings allowance of £1,000 (basic rate taxpayers) or £500 (higher rate taxpayers);

d) consider future strategies to extract funds at a later date at either lower corporate tax or CGT rates;

e) if you have borrowed money in the past to lend to your company, you may have been charging your company interest on that money, which will have been part of your taxable income. Review 2017/18 and future years to determine the best strategy.

You may also decide to take out personal bank loans at the relatively favourable interest rates that apply at the moment and lend on the funds to your family company. Your company can then invest those funds, and the income generated will be taxed at the company's corporation tax rate (currently 19%). Your taxable income will be reduced by the amount of interest you pay on your loan, saving you income tax at your top rate subject to the £50,000 cap (see 3.8).

Care must be taken if a company has investment assets, because this can have CGT or Inheritance Tax consequences, depending on your particular circumstances.

5.3 Employees

Employees should consider salary sacrifice arrangements in order to reduce the amount of their taxable income by replacing them with benefits which are taxable at a lower amount. There were changes in the rules for salary sacrifice in the Finance Act 2017 and advice should be taken if such an approach is contemplated.

5.4 Sharing income around your family

The transfer of income producing assets from one member of a family to other members of the family can result in family income being spread between those members, so that as few as possible family members exceed the £150,000 limit. One obvious opportunity is to transfer income producing assets from a high-earning spouse to the lower earning one; for example, if one spouse faces a 45% marginal tax rate and the other is a basic rate taxpayer, there is a potential for 25% tax to be saved. The attacks by HM Revenue & Customs over the last few years mean that care needs to be taken in passing business assets between family members (shares in family companies, partnership interests etc), and CGT and Inheritance Tax also needs to be considered.

5.5 Investing for Capital Gains – securities

An individual's or trust's capital gains are not counted as part of their income. Consequently investing in assets which pay a low or nil income but provide capital growth will have tax benefits as follows:

a) the gains will be taxed at the CGT rate of 10% or 20% rather than your own or trust's marginal income tax rate, and

b) the gains do not count towards the £150,000 limit above which the income tax rate increases from 40%.

There are many investment products that are geared towards producing capital growth rather than income, such as low-yield unit trusts and OEICs. In addition, zero-coupon bonds may be worth investigating. As with any investment product, there are risks associated with these and proper advice should be taken.

5.6 Tax Efficient Borrowings for Property Investments

Tax relief is generally available on loans (not overdrafts) taken to invest in commercial or residential properties let to tenants. In certain circumstances it may be possible to restructure your borrowings so as to obtain a higher rate of tax relief on more of your borrowings. This will result in a reduction of your taxable income which counts towards the £150,000 limit.

From 6 April 2017 there is a phased removal of tax relief for interest/finance costs for residential let property over four years. The tax deduction on interest will be restricted as follows:

2017/18	75% of interest
2018/19	50% of interest
2019/20	25% of interest
2020/21	Nil

A 20% tax credit for interest will generally be available for interest disallowed. By way of example if in 2017/18 the interest paid is £1,000 then £750 would be relieved against rental income. A tax credit of £50 (£250 x 20%) would be available for the disallowed part. This tax credit will only be available against tax on rental income rather than against other forms of income.

Early consideration should be given to the impact of the changes to the relief of loan interest on residential property based on your particular circumstances.

5.7 Offshore Bonds

Investment in offshore bonds has the benefit of avoiding UK income tax until funds are taken from that bond. In the meanwhile, the funds can roll up within the bond free of UK tax. Such investments might therefore be appropriate for individuals who may be paying 45% income tax. The funds can then be withdrawn at later date if the investor’s income falls below the 45% tax rate.

It is worth noting that offshore bonds typically have higher costs and fees than their onshore cousins. Allowing for the likely additional investment returns on the tax savings within the funds, the bond needs to be held, typically, for around seven to ten years to achieve a net return that is greater than an onshore one.

5.8 Setting up your own Family Investment Company

As companies currently pay corporation tax on their profits of 19%, a significant tax saving can be made if investments are made through a family owned company rather than personally. By this means, the company’s investment income is taxed at the company’s corporation tax rate instead of income tax rates of up to 45%. In addition, dividends received by companies from other UK companies are free of corporation tax altogether. Indexation (to take into account inflation) on capital gains made in a company was abolished on 1st January 2018 (legislation to be enacted). However, the government has proposed that any indexation up to December 2017 will be preserved.

Use of a company to make investments in this way amounts to a deferral of tax. This is because income tax (in addition to the corporation tax already paid) is payable on any dividends paid by the company. The use of such a company should therefore only normally be considered as a long term investment vehicle where funds are to be built up in the company.

If minor children are to be shareholders of such a company, it may be worth their shareholdings being owned by a family trust to prevent the children having full access to their share of the company funds and any dividend payments it makes.

In some circumstances it may be preferable to establish a family investment vehicle as a partnership instead of a company, although that may not prevent the 45% income tax rate applying to the income.

Existing investments could be sold to the investment company. CGT would be payable if the investments have increased in value, but other than that the only tax would be Stamp Duty Land Tax on land and buildings and Stamp Duty on stocks and shares (at 0.5%). The sale price would be left outstanding as a loan to the company. As the company made profits, these could be distributed tax free in the form of repayment of the outstanding purchase price.

5.9 Family Trusts

Discretionary trusts are subject to 45% income tax above the first £1,000 of annual income. That tax can only be recovered where the income is paid out to beneficiaries, but the tax has to be paid before it can later be recovered. Trustees should take advice on the strategies open to them to reduce the overall liability to tax.

5.10 Going Non-Resident

Some people may be planning or contemplating becoming non UK resident and are thinking of living in a jurisdiction with lower or nil taxes. New statutory tax residence rules have applied from 6 April 2013 and we recommend that specific advice is taken at an early stage based on your own circumstances if you are looking at becoming non UK resident for tax purposes.

6. A Summary of Key Personal Tax Issues For 2018/19

6.1 Statutory Residence Test

From 6 April 2013 the residence status of individuals is determined by applying the Statutory Residence Test. The rules provide for some people to be treated as automatically not resident for a year and others to be automatically resident. For those who are neither automatically resident or non-resident then the rules look at time spent in the UK, residency in the past three years and connecting ties with the UK. Given the major changes introduced in the Finance Act 2013 if you are leaving or coming to the UK it is essential to analyse the position based on individual circumstances.

6.2 Tax Allowances, Thresholds and Rates of Tax

In the Chancellor's Autumn Statement of 22 November 2017 it was announced that the personal allowance for those aged under 65 will increase to £11,850 from 6 April 2018. The basic rate limit will increase from £33,500 to £34,500. Currently, personal allowances are withdrawn completely for individuals with income in excess of £123,000 (£123,700 for 2018/19) and there is a staged reduction of allowances between £100,000 and £123,000 (£123,700 for 2018/19). This means that there is an effective tax rate of 60% on incomes between £100,000 and £123,000 (£123,700 for 2018/19). For those individuals anticipating that their income next year will exceed £100,000, many of the ideas outlined above to avoid income arising above the level that the 45% tax rate applies, will also help to restrict their taxable income below £100,000.

6.3 National Insurance Contributions (NIC)

NIC rates for employees, employers and the self-employed remain as for 2017/18. The main rate for employees will be 12% with a rate of 2% payable on earnings over the upper earnings limit, 13.8% for employers and 9% for the self-employed with a rate of 2% payable on profits over £46,350.

6.4 Stamp Duty Land Tax (SDLT) for residential properties

Currently the SDLT payable on the purchases of residential property is as follows:

Purchase Price of Property	Rates paid on the part of the property price within each tax band
Up to £125,000	Zero
£125,001 to £250,000	2%
£250,001 to £925,000	5%
£925,001 to £1,500,000	10%
£1,500,001 and over	12%

These rates only apply to residential land, and do not affect commercial property.

Since 1 April 2016 the rates of SDLT charged on the purchase of Buy to Let and second properties in addition to their main home are increased by 3%. This extra charge applies if the purchaser of UK property owns another property anywhere else in the world. The 3% additional charge is not intended to catch people replacing their main home or first time buyers.

6.5 Non-Resident Individuals Disposing of UK Commercial Property

It was announced in the Chancellor's Autumn Statement that non-resident individuals, companies and trusts disposing of UK commercial property will be subject to CGT from April 2019. Also non-residents making gains via indirect disposals of UK land will be taxable. The new rules are not expected to apply to gains relating to periods before 5 April 2019. Draft legislation is awaited but consideration should be given to the impact of these changes and whether any restructuring prior to 5th April 2019 should be undertaken.

6.6 Non-Domiciled Persons and Offshore Trusts

Major changes to the taxation of non-domiciled individuals took place from 6th April 2017. In particular, the key changes now effective are:-

a) Deemed Domicile

Non-domiciles who have been resident in the UK for 15 out of the past 20 tax years will be deemed domiciled from 6 April 2017. This means they will no longer be able to claim the remittance basis of taxation and will be subject to tax on worldwide income and capital gains on an arising basis. The Inheritance Tax deemed domiciled provisions have been aligned with these rules such that worldwide assets are within the charge to Inheritance Tax (subject to special rules for non-resident trusts) after 15 years of UK residence;

b) UK born non-domiciles

Individuals who were born in the UK with a UK domicile of origin but subsequently acquired a domicile of choice overseas will, if they return and become resident in the UK, be treated as UK domiciled;

c) **UK residential property held within offshore structures**
From 6 April 2017 UK residential property held directly or indirectly by non-domiciles has been brought into the charge to Inheritance Tax even if the property is owned through an indirect structure such as an offshore company or partnership. The change applies to all UK residential property whether it is occupied or let and of whatever value;

d) **Offshore Trusts settled by non-domiciles**
Complex provisions apply to offshore trusts. Protection from various taxes for offshore trusts settled by a non-domicile before becoming deemed domicile is still possible. However, beneficiaries of offshore trusts who are deemed domiciles will be taxed on all benefits received to the extent that they are matched to trust income and gains. Also from 6 April 2017 it is essential to ensure that protected offshore trusts do not receive any additions as this would lead to loss of protection;

e) **Rebasing of personally owned assets**
Non-domiciles who own offshore assets in their own name, who became deemed domiciled on 6 April 2017 and who paid the remittance basis charge prior to 2017/18, will have those assets rebased for CGT purposes on 6 April 2017. The assets must not have been situated in the UK in the period 16 March 2016 to 5 April 2017. The rebasing applies on disposal providing that the person remains deemed domiciled under the 15 out of 20 years at all times until disposal;

f) **Cleansing of mixed funds**
Individuals who have previously been taxed on the remittance basis can rearrange their overseas bank account funds, often held in mixed funds, into clean capital, income and gains, up to 5 April 2019. This will not apply to other assets or investments;

g) **Planning opportunities**
There have also been further amendments to the anti-avoidance legislation for non-resident trusts which come into effect from 6th April 2018. These in particular affect distributions to close family members from the trust, and changes on how trust gains are matched to distributions to non-resident beneficiaries. There is a window of opportunity for trustees of non-resident trusts to review matters with any decisions being implemented by 5th April 2018. We recommend trustees, settlors and beneficiaries of non-resident trusts seek advice on the potential impact of the new rules at the earliest opportunity.

7. Conclusion

We trust that the above summary is helpful. As ever, it is important to take into account your own particular circumstances and to take specific advice. Many of the items mentioned above will not in themselves make a dramatic impact on your tax liability, but we recommend that maximum advantage is taken of the tax reliefs and exemptions, while they last.

This Year End Personal Tax Planner is not intended to be a comprehensive review of all tax related year end issues or a statement of the law. No liability for omissions, errors of fact or opinion contained herein is accepted. Please take professional advice based on your specific circumstances before undertaking any action or investment.

Notes

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