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## 2018/19 Year end tax saving strategies

As the end of the tax year draws closer, it is important to review your financial planning strategies. By taking action before the year end, you can ensure that your affairs are as tax-efficient as possible.

As your accountants and tax advisers, we can work with you to identify any areas where you can minimise your tax liabilities, increase the profitability of your business and maximise your personal wealth.

This guide considers some tax-efficient planning strategies that you might wish to implement before 5 April 2019. These may include:

- making the most of tax-efficient savings and investments
- estate and inheritance tax planning strategies
- making the best use of capital allowances
- extracting profit tax-efficiently.

**Financial planning should ideally be an ongoing, year-round activity. For further advice and information on tax-efficient planning, up to 5 April 2019 and beyond, please contact us.**

### Tax Planning across the family

As part of your financial planning strategy, you should take full advantage of the allowances available across the family.

#### Making the most of personal allowances

Each individual is entitled to their own personal allowance (PA), which for 2018/19 is £11,850 (rising to £12,500 for 2019/20). If your spouse or partner has little or no income, you might want to consider spreading your income more evenly to ensure that you make full use of each PA. This may involve transferring income or income-producing assets – but be mindful of the settlements legislation governing ‘income shifting’. Any transfer must be an outright gift, with ‘no strings attached’.

Certain married couples may also be eligible to transfer 10% of their PA to their spouse. The Marriage Allowance is available to married couples and civil partners where one spouse has income below the PA and neither spouse pays tax at the higher or additional rate. It means £1,190 can be transferred in 2018/19, reducing a couple’s tax liability by up to £238 in the current year. Children are also entitled to their own PA.



#### Reducing your taxable income

You can also look to reduce your taxable income by increasing contributions into a pension scheme or making charitable donations via Gift Aid. This may be beneficial if you or your spouse or partner are receiving Child Benefit, and either of your adjusted net incomes are expected to be between £50,000 and £60,000. It may help to eliminate the High Income Child Benefit Charge, which applies at a rate of 1% of the full Child Benefit award for each £100 of income between £50,000 and £60,000. You might also adopt a similar strategy if your income is just above £100,000, as the PA is reduced by £1 for every £2 of income over this figure.

**For further advice on tax-efficient planning strategies, please get in touch.**

#### Planning ahead for your ‘golden years’

**Planning for your retirement may not be at the top of your agenda, but it is vital to start thinking about how you will fund your life after work. Despite the introduction of pension auto-enrolment, many individuals still run the risk of facing an income shortfall upon retirement.**

Many people do not take advantage of tax reliefs and (tax-deductible) employer contributions when building a fund for their retirement. Investing in a pension plan can be worthwhile because of the tax privileges. Pension funds are broadly free of UK tax on their capital gains and investment income. When you take the benefits, up to a quarter of the fund is normally tax free, but the pension income will be taxable.

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This guide considers some tax efficient planning strategies that you might want to implement before 5 April 2019.

However, there is no substitute for one-to-one advice, so be sure to contact us to discuss your individual circumstances.



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If you are not in an appropriate employer scheme, it is essential to make your own arrangements. There are some restrictions and allowances that you need to consider when making pension contributions, and for contributions to be applied against your 2018/19 income, they must be paid on or before 5 April 2019.



The Annual Allowance for pension contributions (or growth in final salary benefits) is generally £40,000. However, a taper is applied to the annual allowance for those who have both net income over £110,000 and adjusted annual income (their income plus their own and their employer's pension contributions) over £150,000. For every £2 of adjusted income over £150,000, an individual's annual allowance is reduced by £1, down to a minimum of £10,000. For people drawing a flexible income from a pension, the annual allowance is also reduced to £4,000.

Where pension savings in any of the last three years' pension input periods (PIPs) were less than the annual allowance and you have been a pension scheme member during a tax year, the 'unused relief' is brought forward. The unused relief for any particular year must be used within three years. 5 April 2019 is the last date to make full use of the £40,000 Annual Allowance for 2015/16.

#### What can be paid?

For pension contributions to be applied against 2018/19 income they must be paid on or before 5 April 2019.

Tax relief is available on annual contributions limited to the greater of £3,600 (gross) or the amount of your UK relevant earnings, but also subject to the

annual allowance. Tax relief on pension contributions is at least 20%, and if you are a higher or additional rate taxpayer you will get tax relief at 40% or 45%.

Effective tax relief can be as high as 60% where the personal allowance is being withdrawn, and can be even higher if tax credits are being withdrawn. Pension payments also attract higher rates of relief if, for example, they stop you losing your child benefit or result in some of your dividends no longer being subject to higher rate tax.

Limiting your contributions to amounts that qualify for at least 40% tax relief will give you the most benefit.

You don't need earnings to contribute up to £2,880 net to a personal pension, so you could set up a pension for your partner or children. This would mean that even if they do not pay any tax they can still benefit from 20% tax relief bumping their pension contribution to £3,600 gross.

#### Drawing pension?

Most people aged 55 and over can draw their pension savings flexibly. Withdrawals above the tax-free amount are liable to income tax at your marginal rate. You should take advice before accessing pension savings as there are several options and they will generally have a long-term effect on your financial position.

A Lifetime Allowance (LTA) is also applied to pensions when the funds are crystallised/drawn and this is the maximum you can hold in a tax-favoured pension scheme.

The overall tax-advantaged pension savings LTA is currently £1,030,000 for 2018/19. This will increase to £1,055,000 from April 2019. Where total pension savings exceed the lifetime allowance at retirement (and fixed, primary or enhanced protection is not available), a tax charge arises.

Your pension scheme managers can provide pension forecasts to help you estimate whether you are saving enough and advise on any additional savings you might need to make. When you consider your retirement income, don't forget to also assess your expenditure – many people

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underestimate the amount they will need to live comfortably when they stop working.

When planning for your later years, don't forget to review the other options that may be available. You might, for example, want to consider the role of your business and/or your home in boosting your retirement fund, as well as the Lifetime ISA.

**If you are worried about your income upon retirement, please get in touch with us. We would be delighted to help you.**

### Capital gains tax planning

Everyone has an annual CGT exempt amount, which in 2018/19 makes the first £11,700 of gains free of tax. Most gains above the exempt amount are taxed at 10% where taxable gains and income are less than the basic rate band (£34,500 in 2018/19 and £37,500 in 2019/20 (the rates shown are for England, Wales and Northern Ireland for 2018/19 and exclude both Scotland and Wales for 2019/20). The rate is 20% on gains that exceed this limit. For residential property gains, the rates of tax are subject to an 8% surcharge becoming 18% and 28% respectively.



You should generally aim to use your annual exempt amount by making contractual disposals before 5 April 2019. If you have already made gains of more than £11,700 in this tax year, you might be able to dispose of investments standing at a loss to create a tax loss that can be set against the gains.

If your disposals so far this tax year have resulted in a net loss, the decision whether to dispose of investments to realise gains before 5 April 2019 will

depend on the amounts involved. Depending on your level of income, timing your disposals either before or after the end of the tax year could result in more of your gains being taxed at 10% rather than at 20% (or 18% instead of 28%).

CGT is payable on 31 January after the end of the tax year in which you make the disposal.

Planning considerations:

- You could delay a major sale until after 5 April 2019 to give yourself an extra 12 months before you have to pay the tax.
- Shares or assets you own might have become virtually worthless. If so, you can claim the loss against your capital gains without actually disposing of the asset by making a negligible value claim. You can backdate the loss relief to either of the two tax years before the one in which you make the claim, provided that in the earlier year you owned the asset and it was already of negligible value. **5 April 2019 is the time limit for backdating a claim to 2016/17;**
- CGT deferral via subscriptions in EIS or SEIS qualifying company shares. These are high risk investments that may also be illiquid. A brief overview follows:

### Enterprise investment scheme

The enterprise investment scheme (EIS) gives tax relief for investing in new shares in relatively small qualifying trading companies that are not listed on any Stock Exchange.

- Income tax relief is given at 30% on up to £1 million invested in 2018/19.
- Gains on the EIS shares are exempt from CGT after three years.
- It is possible to defer CGT on a gain of any size, on the disposal of any asset, by reinvesting the gain in shares that qualify under the EIS. An EIS investment can be used to defer gains made up to three years earlier.

### Seed enterprise investment scheme

Through the seed enterprise investment scheme (SEIS), individuals can get 50% income tax relief on investments of up to £100,000 a year in start-up companies. In addition, potentially half the investment can be matched with gains arising on the disposal of assets in 2018/19, giving total tax relief

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For more help and advice on any of the issues discussed in this update, please speak to your usual Hillier Hopkins contact or call us on 0330 024 3200.





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of up to 60% (50% income tax relief plus 10% CGT relief - (half of the normal higher CGT rate of 20%). However, CGT relief will be 14% where a residential property gain is involved, increasing the potential total relief to 64%. To the extent that you did not use up your £100,000 limit in 2017/18, an investment made during 2018/19 can be carried back and relieved as if you had made it in the previous year.

#### Venture capital trusts

There are no CGT deferral reliefs available upon subscription in VCT shares. You can obtain income tax relief of 30% by subscribing up to £200,000 for shares in venture capital trusts (VCTs) in 2018/19. Gains are generally exempt from CGT. VCTs are investment trusts that invest in a range of relatively small trading companies.

It is important to remember that EIS and SEIS shares and VCTs are high-risk investments. They may be difficult to exit and you should take specialist advice.

#### Don't forget to utilise your ISA allowance

There are now a number of different types of ISA on the market, including the Lifetime ISA for adults under the age of 40; Help to Buy ISAs for first-time home buyers; and Junior ISAs for those aged under 18.

#### The rules governing ISAs

Individuals can invest in any combination of cash or stocks and shares up to the overall annual subscription limit of £20,000. However, a saver may only pay into a maximum of one Cash ISA, one Stocks and Shares ISA, one Innovative Finance ISA, one Help to Buy ISA, and one Lifetime ISA. You have until 5 April 2019 to make your 2018/19 ISA investment.

#### The Lifetime ISA

The Lifetime ISA can help individuals to save towards their retirement or for a first home and is available to adults under the age of 40. Those eligible can deposit up to £4,000 into a Lifetime ISA each tax year. They will then receive a 25% bonus from the government on any savings put into the account before their 50th birthday.

Both the tax-free savings and the government bonus can be used towards a deposit for a first home in the UK worth up to £450,000 at any time from 12

months after first saving into the account. Alternatively, the funds may be withdrawn from the Lifetime ISA from age 60, tax-free, for any purpose.

Taking out cash or assets from the Lifetime ISA for any other reason will mean you are subject to a 25% withdrawal charge. This aims to recover the government bonus. An exception to this is if you are terminally ill with less than 12 months to live, in which case you are allowed to withdraw from this ISA without facing any penalties.



#### Help to Buy ISA

This offers a tax-free savings account for first-time buyers saving for a home. Savings are limited to a monthly maximum of £200, with the option to deposit an additional £1,000 on top of this, on opening the account. The government provides a 25% bonus on the total amount saved including interest, capped at a maximum of £3,000 on savings of £12,000, which is tax-free.

The bonus can be put towards a first home located in the UK with a purchase value of £450,000 or less in London and £250,000 or less in the rest of the UK.

#### Junior ISAs

16 and 17-year-olds can invest in an adult Cash ISA. A Junior ISA is available to all UK resident children under 18 as a Cash or Stocks and Shares product or both. Junior ISAs are owned by the child but investments are locked in until adulthood.

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#### 2018/19 ISA limits

ISA	2018/19 limit
Cash, Stocks and Shares ISA	£20,000 a year
Junior ISA	£4,260 a year
Help to Buy ISA	£200 a month, with the option to invest an additional £1,000 in the first month
Lifetime ISA	£4,000 a year with no monthly maximum amount

We can offer advice and strategies to help you make the most of your personal wealth.

#### Making the most of capital allowances

When you buy a tangible asset, such as business equipment, the cost of the asset can be offset against the profit by claiming capital allowances.

The majority of businesses are able to claim a 100% Annual Investment Allowance (AIA) on the first portion of expenditure on most types of plant and machinery (except cars). The AIA applies to businesses of any size and most business structures, but there are provisions to prevent multiple claims.

In the 2018 Autumn Budget, the Chancellor announced an increase in the AIA from £200,000 to £1 million, which applies to expenditure incurred from 1 January 2019 to 31 December 2020. Complex calculations may apply to accounting periods which straddle these dates. It is therefore important to time the purchase of plant and machinery carefully, in order to make the most of the increase.

Enhanced Capital Allowances (ECAs) aim to encourage ‘greener’ investment by providing 100% first year allowances for some investments, including energy-saving equipment and low CO2 emissions cars (up to 50 g/km from 1 April 2018).

Expenditure not covered by the AIA or ECAs enters either the main pool or special rate pool, attracting

writing down allowance (WDA) at a rate of 18% or 8% respectively. The special rate 8% pool includes cars with CO2 emissions exceeding 110 g/km, long life assets and certain specified integral features of buildings. The 2018 Autumn Budget revealed that the rate of WDA on the special rate pool of plant and machinery will be reduced from 8% to 6% from 1 April 2019 for businesses within the charge to corporation tax and 6 April 2019 for those within the charge to income tax. Again complex calculations may apply to accounting periods which straddle these dates.



Typically, a purchase made just before the end of the current accounting year will mean the allowances will usually be available a year earlier than if the purchase was made just after the year end. In the same way, the disposal of an asset may trigger an earlier claim for relief or even an additional charge to tax.

In addition, a new capital allowances regime has been introduced for structures and buildings. The Structures and Buildings Allowance will apply to new non-residential structures and buildings. Relief will be provided on eligible construction costs incurred on or after 29 October 2018, at an annual rate of 2% on a straight-line basis.

**Contact us for advice on how to optimise the AIA for your business.**

#### Holding on to more of your profit

Running a business requires hard work and dedication, and it’s important to maximise the financial rewards of your endeavours. Below are

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### some of the key strategies for extracting profit tax-efficiently.

Corporation tax is the tax due on a company's profits, while personal income tax generally applies to what is drawn out of the company by means of a salary, bonus or other forms of remuneration.

#### Taking a dividend versus a salary/bonus

Following recent changes to the dividend regime, the question of whether it is better to take a salary/bonus or a dividend requires careful consideration.

A dividend is paid from the profits available after corporation tax is paid, whereas a salary or bonus is generally tax deductible for the company. Looking at national insurance contributions (NICs), a salary or bonus can carry up to 25.8% in combined employer and employee contributions, while dividends are paid free of NICs.



The current Dividend Allowance (DA) is £2,000 a year – this fell from £5,000 in April 2018. The DA charges £2,000 of the dividend income at 0% tax – the dividend nil-rate. The rates of tax on dividend income above the allowance are: 7.5% for basic rate taxpayers; 32.5% for higher rate taxpayers; and 38.1% for additional rate taxpayers. So while there may still be potential benefits for a director-shareholder taking a dividend over a salary, the “savings” have reduced.

### Other ways of extracting profit

You may also want to consider some alternative means of extracting profit from your business. These might include:

- **pension contributions** – employer pension contributions can be a tax efficient means of extracting profit from a company.
- **considering incorporation** – if you are self-employed or a partner, incorporating may provide more scope for saving or deferring tax – but be sure to talk to us first.
- **making the most of tax-free allowances** – such as mileage payments, which apply when you drive your own car or van on business journeys.
- **property** – where property which is owned by you is used by the company for business purposes, you are entitled to receive rent up to the market value. However, there may be other tax implications to consider, so care needs to be taken.

We can help you make the most of your business by extracting profit tax-efficiently.

### Minimising the inheritance tax take

Inheritance tax (IHT) receipts have reached a record high, and there may be times when the existing nil-rate bands may not cover the full value of an individual's estate.

It is essential, therefore, to plan ahead to minimise your exposure to IHT wherever possible.

#### IHT: an overview

The standard rate of IHT is charged at 40% on the proportion of an individual's estate which exceeds the nil-rate band of £325,000. An estate includes both the value of chargeable assets held at death plus the value of any chargeable lifetime gifts made within seven years of death.

The residence nil-rate band (RNRB) also applies where a residence is passed on death to direct descendants. The band is set at £125,000 in 2018/19, rising to £150,000 in 2019/20 and £175,000 in 2020/21. Combining the two nil-rate bands would mean that an individual does not have to pay IHT on up to £450,000 of their estate in 2018/19.

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Got a question and not sure who to contact? Email your question to us [hi@hhllp.co.uk](mailto:hi@hhllp.co.uk) and we'll put you in touch with a friendly expert who can help.





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The additional band can only be used in respect of one residential property which has, at some point, been a residence of the deceased. For estates with a net value of more than £2 million, the RNRB is tapered at a withdrawal rate of £1 for every £2 over this threshold.

#### Transfers between spouses

Transfers of assets between spouses or civil partners are generally exempt from IHT, regardless of whether they are made during a person's lifetime or on their death. In addition, both the nil-rate band and the RNRB may be transferable between spouses and civil partners. This means that if the bulk of one spouse's estate passes on their death to the survivor, the proportion of the nil-rate band and the RNRB unused on the first death goes to increase the total nil-rate band and RNRB on the second death.

#### Other exempt transfers

Other transfers which are exempt from IHT include:

- small gifts (not exceeding £250 per tax year, per person) to any number of individuals
- annual transfers not exceeding £3,000 (any unused amount may be carried forward, to the following year only)
- certain gifts in consideration of marriage or civil partnership
- normal expenditure out of income
- gifts to charities.

#### Lifetime gifts

Making a series of lifetime gifts can also significantly reduce your estate's IHT liability. As long as you survive the gift by seven years and no longer continue to benefit from the gift yourself, it will escape IHT. Gifts also have the advantage of allowing you to witness your family members benefitting during your lifetime.

A discount, known as taper relief, can also apply where lifetime gifts were made between three and seven years before death. Please note that the discount applies to the tax on the gift rather than the gift itself.



#### IHT reliefs

Many IHT reliefs are available, including relief on business and agricultural property, which effectively takes most of such property outside the IHT net, although detailed conditions apply, including a two-year minimum holding period, but business and agricultural property will generally attract 100% or 50% relief.

#### Trusts

Trusts can be used to help maintain a degree of control over the assets being gifted, which is especially useful in the case of younger recipients. Life assurance policies can be written into trust so that the proceeds will not form part of the estate on your death.

#### Your Will

It is particularly important to review your Will following changes in your personal or family circumstances, or the introduction of significant new tax rules.

**We can help you plan to minimise the IHT due on your estate – the sooner you act, the better!**

#### Looking ahead to a potential new additional “death tax”

Whilst everyone has been concentrating on Brexit, the Government have re-introduced an increase to the probate fees, which was abandoned due to the 2017 General Election. On 7 February 2019, a House of Commons Delegated Legislation Committee voted 9 to 8 in favour of progressing the draft Non-Contentious Probate (Fees) Order 2018 to the Commons for approval. The next stage is for the

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Order to go to the House of Commons for approval. The date for this has not yet been announced.

If a person has left a will, they usually appoint a will executor. This executor then has to apply for a 'grant of probate' from the probate registry (applying for the right to deal with a deceased person's property, money and other possessions).

Currently a flat fee of £215 applies on all estates in England & Wales (or £155 if the application is made by a solicitor) but the plan is, again, for the cost to be linked to the size of the estate on a sliding scale. The top rate proposed is not as extortionate as the original proposal, but for an estate worth between £300,001 and £500,000 you are looking at a 249% increase to £750, and a 1,760% increase to £4,000 for an estate worth £1,000,000.

If approval is granted, the cost of applying for probate will substantially increase from April 2019 (exact date unconfirmed) so if you are currently administering an estate worth more than £50,000 you may want to ensure that your application is made before 31 March 2019

**Proposed increases**

Value of Estate (pre IHT)	Proposed fee	% change (from £215)
Up to £5,000	£0	0%
£5,000 - £50,000	£0	-100%
£50,001 - £300,000	£250	+16%
£300,001 - £500,000	£750	+249%
£500,001 - £1,000,000	£2,500	+1,063%
£1,000,001 - £1,600,000	£4,000	+1,760%
£1,600,001 – £2,000,000	£5,000	+2,226%
Over £2M	£6,000	+2691%

**We are here to help...**

So make good use of us! This guide is designed to help you identify some of the areas that could have a significant impact on your tax planning. Please consult us early for help in taking advantage of tax-saving opportunities. We will be delighted to assist you.

**My Year End Checklist**

Maximise available allowances across the family	
Make full use of my 2018/19 ISA allowance	
Review and update my pension arrangements	
Find out how the timing of dividends and bonuses could reduce my tax bill	
Re-examine my estate plan and Will	
Put in place a tax-efficient gifting strategy	
Ensure that I am extracting profits from my business tax-efficiently	
Discuss ways of improving cash flow	
Send my business and personal records to you sooner, to allow planning time	

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**For a free initial consultation please contact:**

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**We can help you with your probate application.**