SOPHER+CO
Chartered Accountants

END OF THE TAX YEAR PLANNING 2017-18

It is again the time of year to make sure that you do not miss out on important tax planning points before the end of the tax year. We have outlined below some of the key points which you should consider.

Make full use of your ISA Allowance
Individual may invest up to a limit of £20,000 for the 2017/18 tax year. A saver may only pay into the maximum of one Cash ISA, one Stocks and Shares ISA and one Innovative Finance ISA per year. Savers have until 5 April 2018 to make their 2017/18 ISA investments

Take advantage of Capital Allowances
By making the most of capital allowances, businesses may be able to write off the costs of capital assets against taxable profits. The Annual Investment Allowance allows most businesses to claim a deduction of up to £200,000 of the year's investment in plant and machinery (excluding cars). However, there are provisions to prevent multiple claims between related businesses.

Build a tax efficient Retirement Plan
Pension contributions must be paid on or before 5 April 2018 for them to relieved against 2017/18 income. Annual contributions eligible for tax relief are limited to the greater of £3,600 (gross) or the amount of your UK relevant earnings. However, these will also be subject to the Annual Allowance (AA), which is generally £40,000. This is reduced to £10,000 for those earning over £210,000 with reductions to the AA of £1 for every £2 where a technical calculation of earnings (broadly earnings plus total pension contributions) exceeds £150,000.

Dividend and Savings Allowances
Taxpayers are entitled to £5,000 of dividend income and £1,000 (£500 for higher rate taxpayers) of savings income tax-free. The dividend allowance reduced to £2,000 from 6 April 2018, so business owners should consider their dividend policy to maximise the remaining higher allowance for 2017/18 amongst family shareholders.

Transfer between Spouses
A family's burden of tax may be reduced where income and gain bearing assets are shared between spouses and civil partner to fully utilise the family's basic and higher rate bands (as well as personal allowances). Assets can be transferred free of capital gains tax but notification to HMRC is required where beneficial interests in rental property are split in unequal shares between spouses.

Utilising your Personal Allowance
An individual's personal allowance (PA) entitles them to £11,500 of income tax-free in 2017/18. However, where incomes exceed £100,000 this is reduced by £1 for every £2 meaning the PA is reduced to nil when income exceeds £123,000. Furthermore, the reduction causes a detrimental rate of effective tax of 60% for those earning between those thresholds.

Business owners within this threshold may wish to consider other forms of distribution rather than salary, such as utilisation of the dividend tax-free allowance amongst themselves and family members or taking bonuses in other forms such as benefits, employer pension contributions or share options.

Alternatively, those between the thresholds may be able to mitigate the additional taxes by ensuring a greater proportion of their income is taxed at lower rates through Gift Aid or pension contributions.

Incorporation of Residential Rental Partnership
From 6 April 2017 mortgage interest relief on let residential properties is being phased away such that by 2020/21, relief for all financing costs will be restricted to a basic rate tax deduction. Where properties within a partnership are highly geared, incorporation may enable mortgage interest up to £2m to be deducted in full. Furthermore, profits will be taxed at lower corporation tax rates (although further taxes would be due on extraction of profits). The existence of a partnership means that Stamp Duty Land Tax is not a concern (so long as it is clear the partnership was not set up for avoiding SDLT). There may also be further benefits on eventual disposal, but speak to our team for further bespoke advice.

Capital Gains

The annual CGT allowance is increasing to £11,700 for 2018/19 (from £11,300 for 2017/18). A couple disposing of a joint asset will therefore achieve an additional £800 of gain tax free by waiting until after 6 April to sell.

In addition, losses should be considered to offset any gains for the tax year. This includes making a claim for shares that have become of negligible value or by selling loss heavy investments which can be reacquired later (a gap of at least 30 days is required to avoid the Bed & Breakfasting provisions which would treat such disposal and re-purchases as having been held throughout

Please note that this publication is intended as a general overview of the end of the year tax planning. It is important that professional advice is sought on specific issues relevant to your personal circumstances and the legislation in force before any action is taken.

If you need any further clarification please do not hesitate to contact your Tax Manager.