bostockwhite

chartered accountants and business advisers

Cabourn House Station Street Bingham Nottinghamshire NG13 8AQ

Tel:01949 838838 Fax:01949 831174

Email: tony@bostockwhite.com
samantha@bostockwhite.com
simon@bostockwhite.com

www.bostockwhite.com

Personal tax planning matters 2013/14 and beyond

This Briefing considers your personal tax position. Let us help you to mitigate your tax liabilities in the current tax year and beyond.

The fundamentals

Calculating an individual's tax position can be a complex matter depending on the types of income together with the expenses incurred and whether or not these attract tax relief.

Individuals pay income tax on their gross income reduced by a few specific items which attract tax relief. Items which reduce your gross income include:

- Trade losses
  - This type of relief is considered further below as capping may apply. The loss is only allowable where the business is carried on with a view to making a profit, so no hobbies!
- Property business losses
  - Take care as only the capital allowance element of the loss may be set against general income. Other losses relating to the rental business can only be carried forward against future income from the rental business.
- Losses on subscribed for shares
  - Where you have subscribed for new ordinary shares in a qualifying unquoted trading company and the investment becomes worthless it is possible to claim tax relief on the cost of the shares.

> **TIP**
>
> *If you simply loan the same company some cash and the loan becomes irrecoverable then income tax relief is not due.*

- Qualifying loan interest
  - Interest on a loan taken out to invest in a partnership or to purchase shares in a close company generally qualifies for relief.

A cap on income tax relief

The Government has introduced a limit on uncapped income tax reliefs from 6 April 2013. Generally individuals are now only able to claim reliefs worth up to £50,000 or 25% of their income, whichever is the greater.

The cap only applies to reliefs that are offset against general income and which are not already capped.

Charitable donations such as Gift Aid, Payroll Giving and relief for gifts of land and shares to charity are excluded from the cap.

Maximising the reliefs

Each of the reliefs mentioned in 'the fundamentals section' allows an offset of the loss against total income but each is subject to different rules. We can discuss your best options based upon your individual circumstances so that available tax relief is maximised on a timely basis.

Pensions saving – know your limits

Saving for your retirement is very tax efficient as long as you do not exceed the maximum limits on contributions.

Generally contributions made by an individual attract basic rate tax relief which the pension fund claims as a top up. The individual is also entitled to higher or additional rate tax relief on the contributions and therefore pays more tax at the basic rate and less at the higher rates.

What about employer or company contributions?

Any employer contributions are paid gross and are not a taxable benefit on the employee. The employer is entitled to a deduction for corporation tax purposes.

The annual allowance is currently £50,000. Both the individual's and any employer contributions count towards the limit. Where contributions exceed the limit they will give rise to an income tax charge on the member of the pension scheme at their top rate of tax.

Not paid in your maximum contributions for earlier years?

For those who have not used their annual allowance for the previous three tax years it is possible to make use of this brought forward capacity utilising the earliest year first. However this carry forward is only permitted for three years after which time the relief is lost. It is also necessary that the individual has been a member of a pension scheme for the relevant years concerned.

For tax year 2014/15 onwards the annual allowance will be reduced from £50,000 to £40,000.

There is also an overall limit, known as the lifetime allowance, on the total amount of tax relieved pension savings that an individual can have over their lifetime. For tax year 2014/15 onwards the standard lifetime allowance will be reduced from £1.5 million to £1.25 million.

TIP

If you have a pension fund or funds which are likely to exceed £1.25 million it is important to speak to your pensions advisor. This is because there are election options available to protect your pension fund(s) from the impact of the new standard lifetime allowance. With the potential of a 55% tax charge on the excess fund value you do not want to be caught out when your position could have been protected!

Child Benefit withdrawal

As part of the reforms to the welfare system the government has introduced a tax charge on households that include higher earners where Child Benefit is being claimed by someone in the household. The charge came into effect for Child Benefit payments received after 7 January 2013.

The High Income Child Benefit Charge (HICBC)

The income tax charge will apply at a rate of 1% of the full Child Benefit award for each £100 of income between £50,000 and £60,000. The charge on taxpayers with income above £60,000 will be equal to the amount of Child Benefit paid.

Example

The Child Benefit for two children amounts to £1,752.
The taxpayer's adjusted net income is £57,750.
The charge is 77% of £1,752 = £1,349.
This is calculated as £57,750 - £50,000 = £7,750/100 = 77%.

An equitable charge?

Trying to find any sense of logic and equity in the arrangements for this charge is very difficult!

Consider this situation:

Two couples live next to each other in Osborne Terrace each have two children under 18. The total income for each household is identical but:

- at No 1 are Dave and Samantha – Dave has income of £40,000 and Sam has income of £45,000; **NO HICBC!**
- at No 3 are Nick and Miriam – Nick has income of £20,000 and Miriam earns £65,000. **FULL HICBC!**

Planning opportunities

There may be planning opportunities which can be used to ensure that the charge is kept to the minimum or is safely avoided. This will involve considering:

- the respective gross incomes of the couple and planning profit shares / dividends / salary payments to give the optimum balance
- claims for relief for losses etc
- charitable payments under Gift Aid and who should make them bearing in mind that they reduce adjusted net income (ANI)
- pension contributions paid net of tax. Again who should make them given that they are deducted in calculating ANI.

Election not to receive Child Benefit

Child Benefit itself is not liable to tax and the amount that can be claimed is unaffected by HICBC. It can continue to be paid in full to the claimant even if they or their partner have a liability to the new charge.

Child Benefit claimants, who reasonably expect that their family will be affected by the HICBC, may elect not to receive the Child Benefit if they or their partner do not wish to pay the charge. It is possible to reinstate the Child Benefit if circumstances change. A distinction needs to be made between electing not to receive the payment and not making a claim in the first place. Where there is an entitlement to claim but it is not made, then NI credits given to a carer which contribute to state pension will be lost. Therefore do ensure a claim is made if this is relevant to you.

Enterprise Investment Scheme and Seed

The Enterprise Investment Scheme (EIS) and the smaller version Seed EIS (SEIS) provide for tax relief to be given in the form of a tax reduction for individuals who have subscribed for shares in qualifying companies. The eligibility of the companies is not considered here.

The SEIS provides for relief in the form of a tax reduction for the tax year in which the shares are issued and is the amount equal to tax at 50% for the current year on:

- the amount(s) subscribed for shares issued in that year in respect SEIS relief is claimed or
- if less, £100,000.

The importance of the carry back option

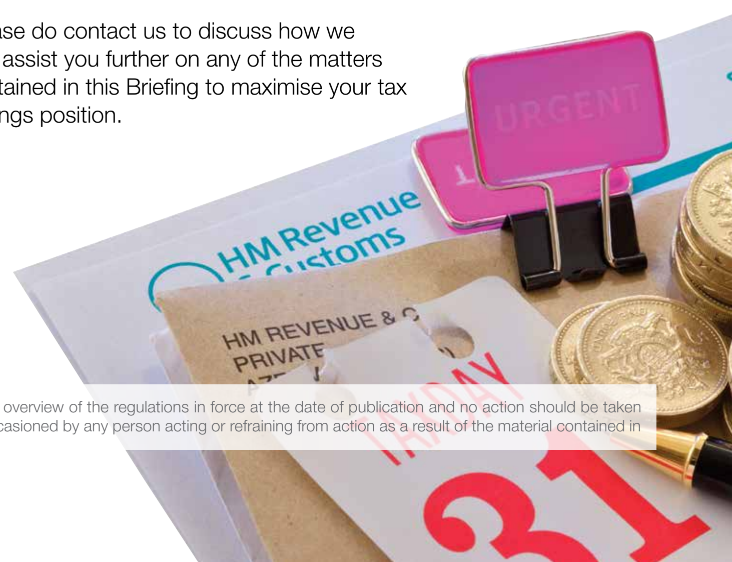
The individual can claim any part of an issue as if the shares had been issued in the preceding tax year. This provision is effective for both income tax and CGT reinvestment relief. This means that where an individual made a capital gain in 2012/13 and invests in shares which qualify under the SEIS rules in either 2012/13 or 2013/14, the 2012/13 gain made can be reduced by the amount on which SEIS relief is claimed for income tax purposes.

A claim must be made for this purpose. If the SEIS relief is subsequently withdrawn for any reason the 2012/13 capital gain will be reinstated.

The following table contrasts the reliefs available on EIS and SEIS:

Investment	EIS	SEIS
Income tax relief	30%	50%
CGT exemption if held for 3 years	Yes	Yes
CGT deferral relief on other disposals	Yes	No
CGT exemption on other disposals 2012/13	No	Yes
CGT exemption on other disposals 2013/14	No	Yes but at 50% of reinvestment

Please do contact us to discuss how we can assist you further on any of the matters contained in this Briefing to maximise your tax savings position.



Disclaimer - for information of users: This briefing is published for the information of clients. It provides only an overview of the regulations in force at the date of publication and no action should be taken without consulting the detailed legislation or seeking professional advice. Therefore no responsibility for loss occasioned by any person acting or refraining from action as a result of the material contained in this briefing can be accepted by the authors or the firm.