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Personal Planning UPDATE

Personal tax planning

This guide looks at tax planning for individuals including available reliefs, allowances and exemptions

No one likes to pay more tax than they have to. However, for many, there is a very fine line between tax avoidance and tax evasion. This is why careful and expert tax planning is at the heart of ensuring that the line is never crossed.

This guide covers the steps we take in order to help clients maximise reliefs, allowances and exemptions. This will help them not only to avoid falling foul of HMRC, but be safe in knowledge that their money is working as efficiently as possible.

This article concentrates on the personal taxation of individuals in the UK. It is divided up into the 4 areas that affect the majority of the UK taxpayers: income tax, capital gains tax, inheritance tax and pensions.

Income tax

Of our quartet of areas, income tax is the one that changes most frequently. The key areas where we look to gain maximum value include:

- checking that full use is being made of personal allowances
- are married couples using both their allowances efficiently?
- eligibility for tax credits
- the suitability of tax efficient investments such as ISAs, growth orientated unit trusts, single premium investment bonds, enterprise investment schemes and venture capital trusts
- all legitimate expenses are claimed on self-assessment returns
- checking PAYE codes for directors, higher paid child benefit recipients and others who have to complete self-assessment returns.

For the current tax year, most people's personal allowance is £10,000, unless you were born before 6 April 1948 or your income is over £100,000.

Income tax rates

Tax rate	Taxable income above your personal allowance
Basic rate 20%	£0 to £31,865 Most people start paying basic rate tax on income over £10,000
Higher rate 40%	£31,866 to £149,999 Most people start paying higher rate tax on income over £41,865
Additional rate 45%	Over £150,000

As the personal allowance is reduced by £1 for every £2 that adjusted net income exceeds £100,000, the effective tax rate of income between £100,000 and £120,000 is 60%.

If your taxable income is between £10,000 and £13,540 (not including savings interest) you may be able to pay 10% on some of your interest, instead of the usual 20%.

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Self-employed?

Tax planning for many self-employed clients usually involves trying to understand payments on account and balancing payments.

These 2 phrases cause a great deal of confusion.

Payments on account are advance payments towards your tax bill, including Class 4 national insurance contributions (NICs) you'll owe for that tax year. They do not include any liability for student loans or capital gains tax.

Although there are exceptions, anyone with a tax bill of more than £1,000 will need to make them.

Each payment is half your previous year's tax bill. You pay the first half on 31 January and the second on 31 July.

A balancing payment is the difference between the amount you've paid on account and your actual tax bill. This will be due on 31 January after the end of the tax year.

If your actual tax bill is lower than you've paid on account, you can apply to HMRC for a refund.

Capital gains tax

You may have to pay capital gains tax (CGT) if you make a profit (or 'gain') when you sell or dispose of a personal possession for £6,000 or more.

Possessions you may need to pay tax on include:

- jewellery
- paintings
- antiques
- coins and stamps
- sets, for example matching vases or chess pieces.

You don't usually need to pay tax on gifts to your husband, wife, civil partner or a charity.

You don't pay CGT on:

- your car - unless you've used it for business
- anything with a limited lifespan which includes most machinery including clocks.

The good news is that you only have to pay CGT on your overall gains above your tax-free allowance (called the annual exempt amount).

Period	Tax-free allowance
6 April 2013 to 5 April 2014	£10,900
6 April 2014 to 5 April 2015	£11,000

The annual CGT allowance is a vastly under-used exemption. We can help by:

- exploring the potential for this tax-free income of £11,000
- advising on how married couples can effectively double this by transferring assets between themselves
- explaining the complex rules around sets, items with a limited lifespan and timing of disposals.

Inheritance tax

The £325,000 nil rate band is here to stay until 2017/18, however there are ways to reduce the impact it may have on your estate. These include:

- making maximum use of the £3,000 annual exemption and gifts out of normal expenditure relief
- using discretionary trusts, loan trusts and discounted gift trusts
- making charitable donations in the most tax efficient way
- understanding the deprivation of assets rulings
- you can buy a life insurance ISA which will pay out if you die and your family or dependents won't need to pay any tax when the policy pays out.

Pensions

While some people stick their head in the sand and hope for a nice legacy, lottery win or other windfall to ease their twilight years, the reality is that most people will see a decline in their income. Planning advice includes:

- making sure you put as much as possible into your pension from your income, as it will be ignored for income tax purposes
- evaluating the effect of cashing in a personal pension and taking the tax-free lump sum
- exploring ways of boosting the potential of existing pensions and setting up new ones
- explaining the new state pension changes that will come in after 6 April 2016
- ensuring your NICs are up to date to maximise state pension entitlement.

Putting plans in place

As the UK tax code now runs to 17,000 pages at the last count, tax planning is a complex matter that requires a number of skills: intimate and up-to-the-minute knowledge of every relevant tax law, dexterity and sound judgement on which apply to you in your individual circumstances.

And if you are picked at random or for any other reason by HMRC for investigation, the services of a team with excellent communication and negotiating skills to ensure the right outcome.

Contact us now to find out about how you can maximise your personal tax efficiency.