14 Devonshire Square, London EC2M 4YT
t 020 7655 6959 e enquiries@taxadvisorypartnership.com
w www.taxadvisorypartnership.com

tap taxadvisory partnership

TAP Personal Tax Tips 2017/18

It is time to turn our attention to identifying opportunities which can help reduce your tax exposure.

Below is a reminder of recent or pending tax changes together with a few ideas on how the right tax planning at the right time can help mitigate your overall exposure in the 2017-18 tax year and beyond.

Tax allowances

The following table summarises the main tax allowances available, in most cases they are wasted if they are not used before the end of the tax year:

Type of relief	Allowance 2017/18	Relief
Pension Contribution	Contribute £10,000 to £160,000*	20% to 60%*
Individual Savings Account (“ISA”)	Invest up to £20,000	Tax Free Growth
Junior ISA	Invest up to £4,128 per child	Tax Free Growth
Capital Gains Tax Exemption	£11,300	Tax Free Gains
Venture Capital Trusts	Invest up to £200,000	30%
Enterprise Investment Scheme (“EIS)	Invest up to £1M	30%
Seed Enterprise Investment Scheme (“SEIS”)	Invest up to £100,000	50% **
Business Investment Relief (“BIR”)	Unlimited	20% to 64%***

* Dependent on availability of unused reliefs from earlier years. Tax relief of 60% available when reducing income down from £123,000 to £100,000 and therefore re-instating your tax-free personal allowance

** Additional relief available if you are entitled to a 50% capital gains tax exemption

*** Tax free remittance of offshore funds to the UK, additional relief depends on whether BIR is combined with EIS/SEIS

Annual Pension Allowance

The annual pension allowance is currently £40,000. However, the allowance is reduced by £1 for every £2 of ‘adjusted income’ above £150,000, with a maximum reduction of £30,000. So, for those with taxable income over £210,000, the annual allowance is reduced to £10,000.

It is also still possible to utilise any unused allowances from the previous three tax years i.e. 2014-15 to 2016-17. For those who pay tax at the UK’s highest rate of tax, the cost of contributing £40,000 to your pension fund can be as low as £22,000 after 45% tax relief.

In view of the £10,000 restriction for higher earners it is important that taxpayers ensure their total contributions (which include both their own and employer contributions) do not exceed their available annual allowance. This will be particularly relevant for those individuals with significant employer contributions or who are part of a defined benefit scheme.

taxadvisory partnership

Pensions Flexibility and the Lifetime Allowance

Since 6 April 2015, changes have been made to the way pensions from defined contribution schemes can be withdrawn.

In addition, the maximum value of pension benefits which an individual can draw without triggering a tax charge (the Lifetime Allowance) is currently £1 million.

If you are considering drawing retirement benefit or have already accumulated a valuable pension fund it is important you obtain professional financial advice in order to understand the options available to you and their implications. We are happy to introduce you to a financial adviser if required.

Personal Allowance Restriction

If your income is between £100,000 and £123,000, your personal allowance is restricted and potentially phased out in full. The effective tax rate for this income bracket is 60%. It is possible to reinstate some or all of your personal allowance by making pension contributions and charitable donations.

For every £2 paid into a pension or donated to charity, £1 of UK personal allowance is reinstated.

To put this into context, a £120,000 earner could increase their pension pot by £20,000 at a cost of just £8,000 after all tax reliefs and the reinstatement of their personal allowance.

You may also wish to consider transferring income producing assets to your spouse/civil partner.

Property Income

Restrictions to mortgage interest relief mean tax costs for landlords will start to rise from 2017/18 onwards.

Landlords should consider tax planning opportunities which could include, reducing debt, refinancing or incorporation. If incorporation is being considered this requires very careful consideration, as there are capital gains tax and stamp duty land tax implications of doing so.

Family Investment Company ("FIC")

FICs are most relevant if you have fully utilised your pension saving allowances and exhausted trust planning opportunities but still want to be able to plan for the future in a tax efficient manner.

A FIC is a corporate structure that enables wealth to be passed on to future generations in a tax efficient way, while providing the "founders" with total control over investment decisions.

FICs are taxed in the same way as other UK companies and pay corporation tax on their annual income and gains, deferring any further tax until profits are extracted from the company.

It is important that a FIC is structured correctly and if done properly it can be used to mitigate tax exposure on investment income, distribute reserves to family members' tax efficiently and divest wealth to family members as part of your Inheritance Tax planning strategy.

If you would like to consider using a FIC please contact us.

Non-UK Residence

An individual's UK residence is determined by the 'Statutory Residence Rest' ("SRT"), which is largely based on the amount of time an individual spends in the UK.

The SRT presents planning opportunities for taxpayers wishing to leave the UK or become resident in the UK as it removes much of the uncertainty which existed before its introduction.

If you are considering a move to or from the UK you could consider accelerating or deferring your income and gains so that they are received when you are non-UK resident. We would recommend that UK entry/exit planning and advice is undertaken before your move.

Capital Gains Tax for Non-Residents

Since 6 April 2015, non-residents have been liable to capital gains tax on the sale of UK residential property.

The application of these rules will result in growth in value after 5 April 2015 being subject to CGT when the property is sold. These rules are complex; there is a strict reporting regime and prescribed provisions in respect of claiming 'Main Residence Relief'.

If you are non-resident and are selling a UK property these rules affect you and you should contact us for further advice.

Non-Domiciled Taxpayers ("Non-Doms")

If you are a non-dom living in the UK, certain tax residency milestones can impact your tax status.

A £30,000 charge applies to access the remittance basis for those who have been resident in the UK for some part of at least 7 out of the previous 9 tax years. This 'remittance basis charge' increases to £60,000 for individuals who have been UK resident in at least 12 of the previous 14 tax years.

Since 6 April 2017, a non-dom who has been UK tax resident in at least 15 of the previous 20 UK tax years is treated as domiciled in the UK for all UK tax purposes, including inheritance tax, and will no longer be able to make a claim to be taxed on the remittance basis.

To compensate, two valuable transitional reliefs have been introduced:

I. Non-UK domiciled individuals typically have a one–off opportunity to re-organise offshore mixed funds into their constituent parts. This allows them to segregate "clean capital" or previous UK tax earnings from other income/gains which would be taxable if remitted to the UK. This opportunity to identify funds which can be remitted to the UK tax free is only available until 5 April 2019 and the planning must therefore be undertaken as soon as possible.

II. Individuals becoming deemed domiciled on 6 April 2017 under the 15 out of 20 year rule will be able to benefit from rebasing of their foreign situated capital assets to their market value on 5 April 2017, for CGT purposes.

There may be planning opportunities, particularly for those approaching or affected by the above watersheds. We would be pleased to provide you with more detailed advice to help mitigate your UK tax exposure as appropriate.

Trust Planning

In some cases it can be beneficial for non-domiciled taxpayers to establish offshore trusts to hold assets, prior to becoming deemed domiciled in the UK.

From a UK tax perspective, a key advantage of this structure is that the value of *non-UK situs assets* in the trust should be permanently sheltered from IHT, regardless of the future domicile or deemed domicile position.

This planning also has further potential benefits with regard to income and capital gains tax.

If you would like further advice in this area please contact us.

Remittance Basis Planning

A non-domiciled taxpayer should take care in terms of transferring funds to the UK, and (subject to circumstances) may be able to identify funds which attract a lower or nil tax charge if remitted to the UK.

For a long-term resident, the remittance basis charge (and increases to the charge over time) may also make it advantageous to be taxed on his/her worldwide income and gains as opposed to paying the remittance basis charge.

Anyone contemplating a transition from the remittance basis should consider e.g. realising gains prior to being assessed to UK tax on a worldwide basis.

Similarly, an individual faced with payment of the remittance basis charge may consider investment structures/strategies to defer investments returns from the charge to UK tax.

Business Investment Relief (BIR)

BIR allows a taxpayer claiming the remittance basis to remit their offshore income and gains tax free if they make a qualifying investment/loan in the UK.

This is a useful planning tool and is particularly valuable if combined with an EIS/SEIS qualifying investment.

Foreign Capital Losses

Individuals claiming the remittance basis cannot offset foreign capital losses against gains taxable in the UK unless a specific election is made. The time limit for making a claim is four years following the end of the first tax year from 2008-09 onwards for which the remittance basis is claimed. Those who first claimed the remittance basis in respect of the 2013-14 tax year will therefore only have until 5 April 2018 to make the claim.

It is not always beneficial to make a foreign loss election and this will depend on your own personal circumstances. Once a loss election has been made there is a strict order of set-off against gains and therefore anyone who is considering making the election should contact us for further advice.

taxadvisory partnership

A Recap On The Classics

The following opportunities should always be considered toward the end of each tax year but are often overshadowed by "headline" changes.

Tax Efficient Investments

- Enterprise Investment Schemes (EIS)
  Key benefits: 30% income tax reducer, capital gain tax exemption after 3 years, inheritance tax exemptions, capital gains tax deferral, carry back from 2017-18 to 2016-17.
- Seed Enterprise Investment Schemes (SEIS)
  Key benefits: 50% income tax reducer, capital gain tax exemption after 3 years, inheritance tax exemptions, capital gains tax *exemption* on gains of up to 50% of the investment.
- Venture Capital Trusts (VCT)
  Key benefits: 30% income tax reducer (if you are a subscriber and hold the shares for ≥5 years), capital gain tax exemption, tax-free dividends.
- Individual Savings Accounts (ISA)/Junior ISAs (JISA)
  Key benefits: Tax free growth and no capital gains tax on exit, can be a cash ISA or Stocks & Shares. JISAs have the same tax free benefits as an ISA and can be set up to save for children under the age of 18. Lifetimes ISA's if 18-39, potential for government top up.

Capital Gains Tax (CGT)

- If you have assets which have increased in value you could make use of your CGT annual exemption and uplifted base costs.
- Crystallise and use capital losses by offsetting them against gains in the same year.
- Rebasing could be achieved with shareholdings through 'Bed and Spouse' and 'Bed and SIPP', 'Bed & ISA' transactions. Please contact us for more information on these planning techniques.

Utilise Your Spouse's Tax Free Allowances, Exemptions & Lower Tax Bands

- You and your spouse/civil partner are entitled to the same tax free allowances and exemptions. You should consider if it is appropriate to transfer assets or hold them in joint names in order to reduce your tax liability next year.
- Inter-spouse transfers should also be considered for individual's claiming the remittance basis who wish to makes remittances during the tax year.

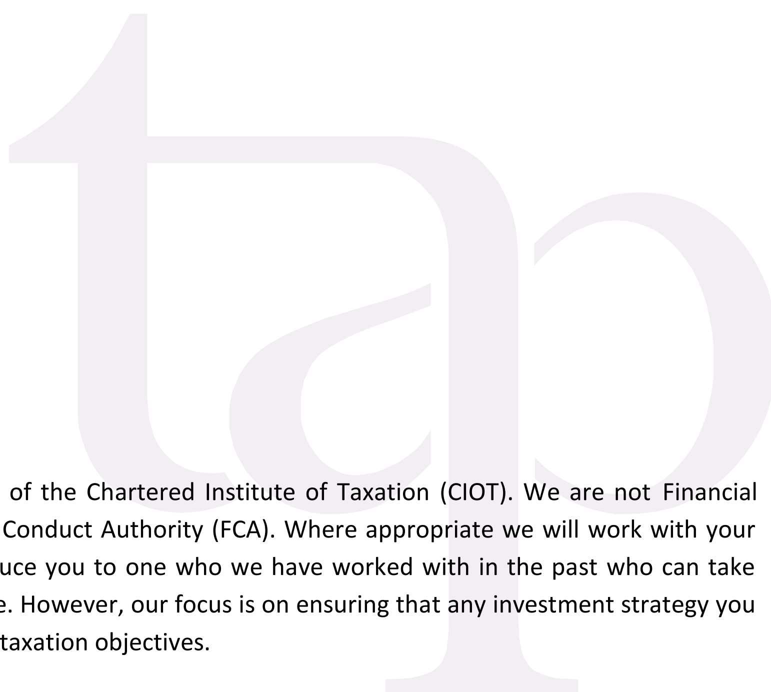
Timing of Dividend Payments

- If you are a company director/shareholder and can control or influence the timing of dividend and/or bonus payments then this should be reviewed before 5 April for any potential tax benefit.
- The tax free dividend allowance is £5,000 for 2017-18. This will be reduced to £2,000 from 6 April 2018 so consideration should be given to utilising this before the reduction takes place.
- Spouses and civil partners should ensure that this has been utilised between them where relevant.

Inheritance Tax (IHT) • Key benefits: Ensure you don't waste your annual allowance of £3,000 and consider utilising the exemption for 'gifts out of income', which is often overlooked. In addition, unlimited small gifts of up to £250 can be made to any number of recipients each tax year.

If you would like to arrange a consultation to discuss your personal circumstances please contact us.

US persons must bear in mind that not all of these planning strategies are appropriate for them, due to potential US tax complications. They will need specialist advice from a US literate financial adviser or wealth manager and we are happy to facilitate an introduction if required.



The Tax Advisory Partnership is a member firm of the Chartered Institute of Taxation (CIOT). We are not Financial Advisors and are not regulated by the Financial Conduct Authority (FCA). Where appropriate we will work with your Independent Financial Advisor or we can introduce you to one who we have worked with in the past who can take care of the FCA aspects of any advice you require. However, our focus is on ensuring that any investment strategy you may select meets with your overall financial and taxation objectives.