YEAR END TAX GUIDE 2015/16

IMPENDING CHANGES & TAX PLANNING

TAXATION OF DIVIDENDS

The Chancellor announced some major changes to the way dividends would be taxed in the Summer 2015 Budget. These changes, to be implemented from 6th April 2016 would see the biggest change to the taxation of income distributed to shareholders since the abolition of the Advance Corporation Tax in 1999. The 10% notional tax credit is to be eliminated and a £5,000 tax free dividend allowance will be available for all UK taxpayers. A flat rate of 7.5% tax within the Basic Rate will also be introduced, with rates of 32.5% and 38.1% at the Higher Rate and Additional Rate respectively.

What does this mean for you?

Please see the below tables where we have shown the difference in tax due on combined salary and dividends in the 2016/17 tax year versus 2015/16.

Annual Salary	Dividends	Total Tax (PAYE/Dividends) Pre-6th April 2016	Total Tax (PAYE/Dividends) Post-6th April 2016	Difference
£12,000.00	£31,000.00	£1,193.38	£2,150.00	- £956.63
£12,000.00	£35,000.00	£2,193.38	£3,450.00	- £1,256.63
£12,000.00	£40,000.00	£3,443.38	£5,075.00	- £1,631.63
£12,000.00	£45,000.00	£4,693.38	£6,700.00	- £2,006.63
£12,000.00	£50,000.00	£5,943.38	£8,325.00	- £2,381.63
£12,000.00	£55,000.00	£7,193.38	£9,950.00	- £2,756.63
£12,000.00	£60,000.00	£8,443.38	£11,575.00	- £3,131.63
£12,000.00	£65,000.00	£9,693.38	£13,200.00	- £3,506.63
£12,000.00	£70,000.00	£10,943.38	£14,825.00	- £3,881.63

*Assumed £12,000 salary and no other income. £43,000 used for illustration as new threshold for Higher Rate. This was £42,385 for 2015/16.

As you can see, the introduction of the 7.5% Basic Rate tax will result in all dividends over the £5,000 dividend allowance incurring income tax. This is still much more tax efficient than drawing a salary, as you would incur 20% tax plus National Insurance.

The additional taxes due will be payable on your 2016/17 Self Assessment tax return.

Actions to consider

- Ensure you have fully utilised your Basic Rate tax band for 2015/16 and consider drawing a further dividend prior to 6th April 2016. Your income (salary + other income + gross dividends) can reach £42,385 before Higher Rate tax becomes due.

- If you are already a Higher Rate taxpayer, consider bringing dividends forward to make the most of the 2015/16 rate (effective rate 25%) as opposed to the 32.5% post 6th April 2016.

- Look at the possibility of adding a spouse or civil partner as a shareholder to utilise their £5,000 tax free allowance in the 2016/17 tax year.

- Review your salary level. As a director you have the power to set this – consider a lower salary so more dividends are taxable at the 7.5% Basic Rate as opposed to the 32.5% Higher Rate going forward. Please discuss the implications of this with your accounts manager.

SAVINGS

One positive to come out of the Summer 2015 Budget was the changes to tax on interest. Basic Rate taxpayers will receive up to £1,000 of interest tax free, whilst Higher Rate taxpayers will receive £500. This means this will no longer utilise any of your Basic Rate tax band and you can thus draw a further £1,000 dividends before crossing the Higher Rate tax threshold.

Actions to consider

- Individuals who are 18 or over can invest up to £15,240 in an ISA. Withdrawals from an ISA are free of income and capital gains tax, but the value of an ISA will form part of your estate for inheritance tax purposes.

- Consider setting up a Junior ISA for your children and utilising the £4,080 allowance before 6th April 2016.

- Help to Buy ISAs were launched on 1st December 2015 and allow individuals over the age of 16 to save up to £200 into an account per month. Buyers can also deposit a lump sum of up to £1,000 when they set up their account. The money will earn interest and will also qualify for a 25% bonus (up to £3,000) from the government provided the funds are used to purchase a property.

PENSIONS

There is an annual limit on pension contributions of £40,000, with a lifetime limit of £1 million (from 6th April). It is possible to carry forward any unused allowances from the previous 3 tax years however a scheme must have been in place for those years. For those earning over £150,000, the pension limit will be restricted from 6th April 2016 by £1 for every £2 of income in excess of £150,000, down to a minimum of £10,000.

Contributions can be made personally to receive tax relief by extending the Basic Rate tax band (and thus having more dividends taxed at 7.5% as opposed to 32.5%) or via your limited company. The company receives Corporation Tax relief for contributions made on your behalf.

Actions to consider

- You don't need to be earning to contribute to a scheme, you can pay in £2,880 net (£3,600 gross) to a scheme for your partner or children.

- Set up a scheme and make a contribution before 6th April 2016 to benefit from tax relief on your 2015/16 tax return or next company accounts if paid as an employer contribution.

- If you have made existing contributions and are over 55 years old, you should certainly seek advice regarding your options drawing your pension savings.

INVESTMENTS

For the budding Dragons out there looking to invest in new companies, the Enterprise Investment Scheme (EIS) and Seed Enterprise Investment Scheme (SEIS) provide tax relief in turn for investment in small qualifying trading companies. It is important to remember that the relief given for these is high due to the risk involved and specialist advice should be sought.

EIS

- Income tax relief is given at 30% on up to £1 million invested in 2015/16.
- Capital Gains are exempt on the disposal of these shares after three years.

SEIS

- Up to 50% tax relief is given on a £100,000 investment invested in 2015/16.
- The tax relief can increase to 64% as there is a mechanism to have half of the investment matched by gains arising from the disposal of other assets in the same tax year.

PROPERTIES

Landlords were also a target for the Chancellor in 2015. A new rate of Stamp Duty, 3% higher than the base rate will apply to those buying additional properties as buy-to-lets or second homes from 1st April 2016. Further to this, the 10% Wear & Tear allowance for furnished properties will be abolished from 6th April 2016. Replacing items on the renewals basis will now be the norm. This will benefit some landlords as they can now deduct the full cost of replacing furnishings.

Another large change was the proposal to limit the full tax relief on loan (mortgage) interest with a view to phasing this down to just Basic Rate relief (20%). This will be a tapered process beginning from the 2017/18 tax year with the full effect being in place by 2020/21.

Actions to consider

- Wait until 6th April 2016 before replacing items or refurbishing a property.
- Make use of the increased Rent-a-Room relief. This will increase from £4,250 to £7,500 from 6th April. This is a huge boost to those living in popular tourist areas and let a room using websites such as AirBnb.
- If you are considering investing in a buy-to-let property, consider using a limited company vehicle where a mortgage is required.

CAPITAL GAINS

Most individuals have the use of a tax-free gain of up to £11,100. After this, your gains are dependent on your other income. Within the Basic Rate you would suffer 18%, which increases to 28% within the Higher Rate. Gains taxed under these rules would include a second property (not your main home or Principal Private Residence) or shares.

Entrepreneurs Relief is available for business owners and can result in a tax rate of 10% on qualifying gains.

Actions to consider

- You should aim to utilise this year's allowance before 6th April. If you have already utilised this year's allowance, consider any losses you have made to offset this.

- You may be able to utilise a spouse or civil partners allowance by transferring a portion of the asset to them, especially if they are a Basic Rate taxpayer. Please consult one of our tax managers before considering this.

INHERITANCE TAX

Inheritance tax (IHT) is payable if a person's assets at death, plus gifts made in the seven years before death, add up to more than £325,000 (the nil rate band). An additional nil rate band, initially set at £100,000, will be introduced from 2017/18 where a main residence is left to direct your kin. IHT is generally payable at 40% on amounts over the nil rate band.

When a surviving spouse or civil partner dies, their estate will benefit from any unused IHT nil rate band of their previously deceased spouse or partner.

Actions to consider

- Gifts totalling up to £3,000 in a tax year are exempt from Inheritance Tax. If you made no gifts to use this exemption in 2014/15, you can make IHT-free gifts of up to £6,000 before 6th April 2016. If you have already used your exemption for 2015/16, you could delay your next gift until after 6th April 2016 to take advantage of the 2016/17 exemption.

- Ensure you have an up to date will that will ensure your wishes are met rather than the estate being divided via the intestacy rules.

George Osborne will be delivering his 2016 Budget on 16th March 2016. There is a chance that changes may be announced to the tax reliefs documented over the previous pages.

Please contact your accounts manager or our personal tax manager should you have any queries about any of the above.

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