leonherman
CHARTERED ACCOUNTANTS & BUSINESS ADVISERS

# Top 10 Tax Planning Tips for 2014

As we approach the end of the 2013/14 tax year, sensible tax planning is an essential tool in making the most of your finances and helping your business's profitability.

Keeping your tax bill to a minimum is not a matter of aggressive or complex tax schemes, but rather of identifying which of the many tax reliefs and allowances specifically granted by law are available to you.

From ISAs to capital allowances, here are ten top tips of saving tax (the majority of which can be done before 5 April 2014) - for you, your family and your business.

## 1) Maximise personal allowances

Ensure that you are making the most of the tax-free personal allowance (PA), which for 2013/14 is £9,440 for those aged under 65, or the age-related allowances which are worth up to £10,660, maximum income £26,100. If your spouse or partner has little or no income, consider transferring income (or income-producing assets) to them to ensure that they are able to make full use of their PA.

*(Care should be taken to avoid falling foul of the settlements legislation governing 'income shifting'. Any transfer must be an outright gift with 'no strings attached'.) Please contact us before taking action.*

## 2) Pay into a pension scheme

Investing in a company or personal pension scheme will afford tax breaks on your personal pension contributions. For 'additional rate' taxpayers, maximising pension contributions (within limits - see below) during 2013/14 will allow you to obtain relief at the rate of 45%. Pension contributions can be made at up to 100% of relevant earnings, subject to the annual allowance of £50,000, and unused allowances may be carried forward for up to three years.
(Please note that the annual allowance will reduce from 6 April 2014 from £50,000 to £40,000.)
The lifetime allowance for the amount you can save and receive tax relief is to be reduced to £1.25 million from 6 April 2014. You can apply for fixed protection before 6 April 2014 to benefit from the higher lifetime allowance of £1.5 million.

## 3) Use your capital gains tax (CGT) allowance

Make the most of your CGT exemption limit each year (£10,900 in 2013/14). It may be possible to transfer assets to a spouse or civil partner or hold them in joint names prior to any sale to make full use of exemptions.

Individuals with a particularly large gain may want to realise it gradually to take full advantage of more than one tax year's allowance. (You should only consider spreading a disposal of, for example, shares if you will not be putting your gain at risk in the meantime).

## 4) Invest in an ISA

Up to £11,520 can be invested in an ISA this tax year, of which up to £5,760 can be invested in cash. Most income accrues tax-free, although the tax credit on UK dividend income cannot be recovered.

All investments held in ISAs are free of CGT. And don't forget, the new JISA, for those aged under 18 who do not have a Child Trust Fund account, allows investment of up to £3,720 in 2013/14. 16-17 year olds can also invest up to £5,760 in an adult cash ISA, even if they already have a JISA. (Care should be taken with JISA – would you like your 16-17 year olds lose with a large sum of money!)

## 5) Make charitable donations under Gift Aid

If you are a higher rate tax payer then make sure all your charitable donations are under Gift Aid so that you obtain additional tax relief.  The charity will also be able to reclaim the basic rate tax from HMRC.

You should also be aware that Gift Aid payments can be carried back to a previous tax year to obtain tax relief.

## 6) Review your business structure

The structure of your business can have a significant impact on your annual tax bills. While in the early years of a business it may be advisable to operate as a sole trader or partnership, as profits increase it may be more beneficial to form a limited company or put in place a hybrid structure (e.g. have a limited company as a partner). Please talk to us about the best option for your business.

## 7) Review your capital expenditure

Review your capital expenditure to maximise claims for capital allowances. For a temporary two-year period from 1 January 2013, the majority of businesses are able to claim a 100% Annual Investment Allowance (AIA) on the first £250,000 of expenditure on most types of plant and machinery (except cars).

Also consider what capital allowances can be claimed in your building. Under "integral fixtures and fittings" we can now claim 8% capital allowances on fixtures and fittings that are fixed within the building, these can be lifts, specialist lighting, heating and other fixtures. Please talk to us about the best option for your business.

## 8) Rent out a room

Under the 'rent a room' scheme, income from letting furnished rooms in your main residence is exempt from tax if the gross annual rent does not exceed £4,250 (£2,125 if you share the income). If you are letting to lodgers who live as part of the family, there will be no loss of capital gains exemption. Otherwise, there may be some restriction.

A lodger can occupy a single room or an entire floor of your home. (The scheme doesn't apply if your home is converted into separate flats that you rent out, or if you let unfurnished accommodation in your home).

## 9) Write a Will and keep it up-to-date

A well-drafted Will can ensure that the wealth you have built up during your lifetime benefits the right people on your death - and it can also be structured to save tax. However, you must review it regularly to ensure it reflects changes in family and financial circumstances as well as changes in tax law.

We can help to reduce your tax liability and secure your family's long-term financial future, through a tax-efficient Will, we have several contacts within the Solicitors sector that we would be happy to put you in touch with.

## 10) Utilise inheritance tax (IHT) exemptions

You should make the best use of IHT allowances, including the annual exemption, which allows you to give away cash or assets up to a total value of £3,000 a year without incurring any taxes. Any regular gifts you make out of your after-tax income, not including your capital, are also exempt from IHT (providing you have enough income left after making the gifts to maintain your normal lifestyle).

Most gifts made during your lifetime will be entirely exempt from IHT if you live for seven years after making the gift. These sorts of gifts are known as 'Potentially Exempt Transfers' (PETs).

Taxable gifts made up to seven years before death are added back into your estate and tax is calculated on the inclusive value. But to the extent that such lifetime gifts made between three and seven years before death exceed the tax threshold, the associated tax is discounted by up to 80%.

Don't forget, small gifts of up to £250 a person per tax year are exempt, while parents can each give cash or gifts worth up to £5,000 to their children as a wedding/civil partnership gift (grandparents and great grandparents can give up to £2,500 and others can give up to £1,000).

Grandparents and great grandparents can contribute into a pension scheme.

Please talk to us about IHT, we can provide detailed calculations in relation to your IHT exposure and look at ways to mitigate your exposure.

**What do you need to do next?**

If you think any of these tips could benefit you **get in touch** with our Tax team to discuss your requirements or call us on **0161 249 5040**