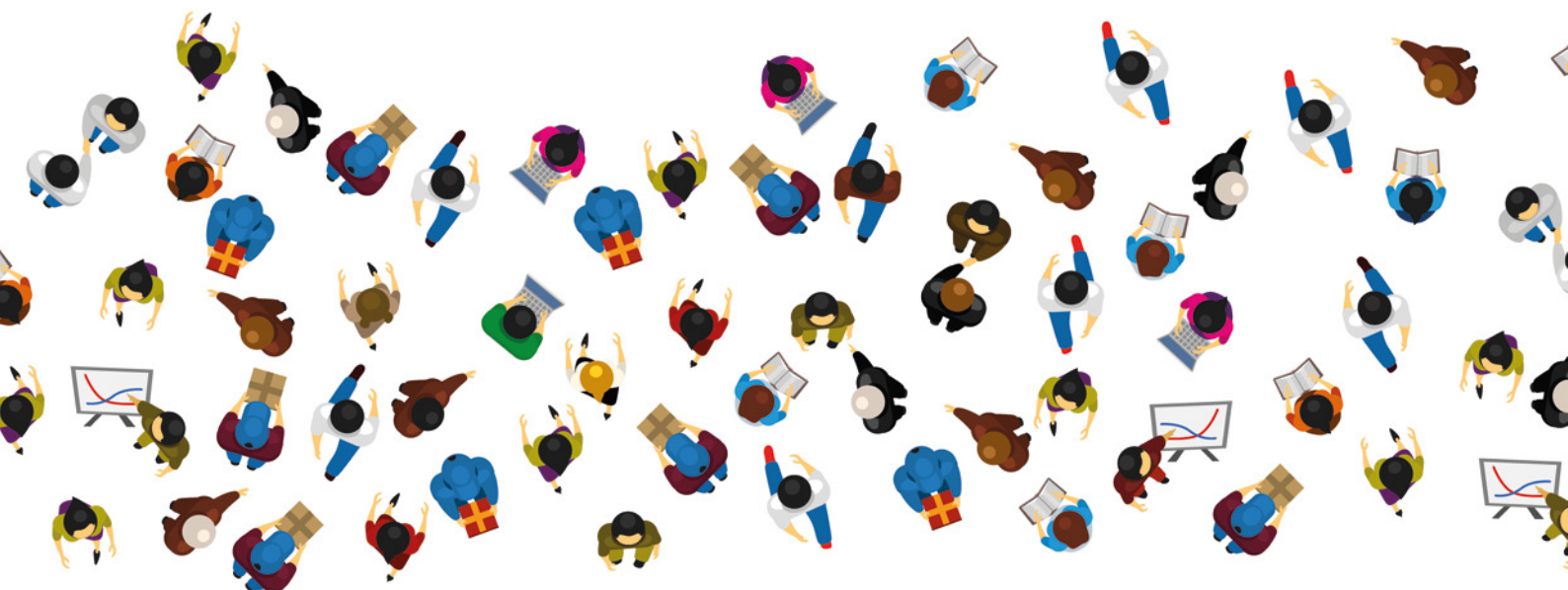




**YEAR-END
TAX GUIDE**

2017/18

RATES, RELIEFS AND ALLOWANCES TO USE
BY 5 APRIL 2018



info@championgroup.co.uk

www.championgroup.co.uk

0161 703 2500

YEAR-END TAX GUIDE 2017/18

IMPORTANT INFORMATION

The way in which tax charges (or tax relief, as appropriate) are applied depends upon individual circumstances and may be subject to change in the future. ISA and pension eligibility depend upon individual circumstances. FCA regulation applies to certain regulated activities, products and services, but does not necessarily apply to all tax planning activities and services. This document is solely for information purposes and nothing in this document is intended to constitute advice or a recommendation. Whilst considerable care has been taken to ensure that the information contained within this document is accurate and up-to-date, no warranty is given as to the accuracy or completeness of any information.

CONTENTS



PERSONAL ALLOWANCES

4



ISAs

4



PENSION CONTRIBUTIONS

5



INHERITANCE TAX

5



CAPITAL GAINS TAX

6



NON-UK DOMICILE TAXATION

6



TAX CREDITS

7



CORPORATION TAX

7



BUSINESS DEDUCTIONS

8



ENTREPRENEURS' RELIEF

8



VAT

9



PENALTIES

9



UPCOMING CHANGES

10



PERSONAL ALLOWANCES AND RELIEFS

The personal allowance for the current tax year is £11,500. Non-savings income above the personal allowance is taxed at rates from 20% to 45%.

A higher marginal tax rate may be payable between £100,000 and £123,000 when the personal allowance is gradually withdrawn, giving an effective marginal rate of 60% in this band for non-savings and savings income.

You may be able to transfer £1,150 of your personal allowance to your spouse or civil partner if neither of you is a higher rate taxpayer.

Generally speaking, it is relevant when one spouse or civil partner is not able to use all of their personal allowance.

TAX ON SAVINGS

The personal savings allowance allows a basic rate taxpayer to receive up to £1,000 of savings income tax-free, while a higher rate taxpayer can get up to £500 of savings income, without any tax being due.

There is no relief for an additional rate (45%) taxpayer.

This is the last year the £5,000 tax-free dividend allowance (a band in which dividends are taxed at 0%) is available.

From 6 April 2018, the dividend allowance reduces to £2,000.



ISAs

Adults can invest up to £20,000 per tax year into an ISA.

Growth, income and withdrawals from an ISA are free of income tax and capital gains tax (CGT), but the value of an ISA will form part of your estate for inheritance tax (IHT) purposes.

A Junior ISA allowance of up to £4,128 is available for those who are 17 or under.

ISAs are normally readily accessible (subject to scheme rules).

It is also possible, as part of the annual £20,000 ISA allowance, to invest £4,000 in a Lifetime ISA which receives an annual government bonus of up to 25% of your savings.

The funds can be used on the purchase of the first home, or used for retirement.

PLANNING

- Consider using the marriage allowance if your spouse or civil partner is not taking full advantage of their personal allowance
- Are there opportunities to utilise any unused allowances this tax year?
- What can you do to take advantage of marginal tax rates and reduce the slice taxable at a higher rate?
- Would it be possible to consider the tax-free alternatives instead of a bonus or a salary increase?
- Is your dividend strategy as tax-efficient as it could be?
- Could you take advantage of the rent a room relief, which is £7,500 for individuals, or £3,750 for joint owners?

There are further scheme rules and early withdrawal penalties, but you must be over 18 and under 40 to open a Lifetime ISA.

Help to Buy ISAs allow individuals over the age of 16 to save up to £200 a month towards their first home.

Savers 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% government bonus (up to £3,000), providing the funds are used to buy a first home.

PLANNING

- If you don't already have an ISA, should you start one this tax year?
- Should you use the maximum tax-free investment allowance?



PENSION CONTRIBUTIONS

There are limits to how much can be invested in a pension scheme before a tax charge is payable.

To qualify for personal tax relief, a pension contribution must be made by – or on behalf of – a relevant UK individual.

Tax relief for pension contributions may be restricted by reference to net relevant earnings and the annual allowance.

The annual allowance is currently £40,000 for those with yearly income from all sources plus pension contributions of less than £150,000 in total.

There is a minimum annual allowance of £10,000, in most cases, for individuals with annual income of £210,000 or more.

Complex rules also apply to individuals with 'threshold income' above £110,000. Therefore, seeking pension advice is important.

Provided you had a pension fund during the previous three years, it is possible to carry forward any unused allowances.

There is a lifetime allowance, which is currently £1 million. Funds which are over this value when benefits are accessed can be liable to a tax charge.

PLANNING

If you are over 55 years old, you may be able to start taking pension drawdown, even if you are still working, but there are serious tax implications for doing so.

However, defined benefit schemes are likely to have restrictions and possibly costs if the pension is taken early.

Other things to think about include:

- when are you planning to retire and what's your ideal retirement income?
- should you increase your pension contributions?
- when considering if you have exceeded the annual allowance, have you reviewed both your employee and employer pension contributions?
- have you fully considered the potential IHT benefits of maximising your pension fund?



INHERITANCE TAX

Generally, IHT is due on death at a rate of 40% if the inheritance threshold of £325,000 is exceeded.

There is a £100,000 residence nil-rate band which is available subject to certain conditions.

These include leaving the family home, or share of one, to direct descendants such as children or grandchildren.

This residence nil-rate band will rise annually until April 2020 when it reaches £175,000, meaning the individual available nil-rate band reaches a maximum of £500,000 or £1 million for married couples or civil partners.

The percentage of any unused nil-rate band from the first death may be transferred to the surviving spouse, allowing up to double the nil-rate band applicable at the date of the second death.

Gifts or transfers made within seven years of death are also added back into the estate and are liable to IHT, but may be subject to some exemptions as well as a tapered reduction for tax on transfers between years three and seven.

PLANNING

- Do you have an up-to-date will that reflects your wishes and are you happy with the choice of executors?
- Are you taking advantage of exemptions, such as the annual £3,000 exemption, gifts out of income, and gifts on marriage or civil partnership?
- Should you consider using a discounted gift trust which allows the gifting of a lump sum into a trust while retaining income for life?
- Do you have surplus assets you can give away and reduce the value of your estate that is chargeable to IHT?
- Should you consider altering the spread of your investment portfolio into more IHT-efficient products?



CAPITAL GAINS TAX

Ordinarily, each person is entitled to make a tax-free gain up to £11,300 (or up to £5,650 for trusts).

Married couples and civil partners each have their own £11,300 exemption, with gains above this threshold usually taxed at a rate depending on income.

Where taxable income is less than the UK basic rate limit, the CGT rate for gains up to the spare basic-rate band allowance is 10%. After this it rises to 20%. The standard rate applicable to a trust is 20%.

A higher rate of CGT applies to residential property and carried interest which are taxed at a rate of 18% and 28%. The rate applicable to disposals of similar assets by trustees is 28%.

For business owners, entrepreneurs' relief gives rise to a lower rate of 10% for qualifying gains. The maximum reduction in tax is £1 million.

PLANNING

- Have you used your annual exemption of £11,300?
- What tax can be saved by maximising the advantage of family member tax-free exemptions?
- Should an asset that is going to be sold in the future be transferred into joint names?
- If a gain is going to be realised, are there other assets which are standing at a capital loss that can be used to reduce your gains?
- Are there ways of deferring or rolling over the gain if tax is due?
- If you have substantial assets outside of an ISA, could you arrange them to generate a tax-free income?
- Have you reviewed your buy-to-let portfolio to explore how you can reduce your tax liability from property income?
- Would it be beneficial to incorporate buy-to-let properties into a company?
- If you have two properties you have used as a home, have you considered if your main residence election is on the property with the largest gain?



NON-UK DOMICILE TAXATION

From 6 April 2017, non-domiciled individuals are deemed UK domiciled for tax purposes if they have been a UK resident for 15 of the past 20 years, or if they were born in the UK with a UK domicile of origin.

IHT is charged on UK residential property when this is held indirectly by a non-domiciled individual through an offshore structure.

This, for example, might be where the property is held in a trust or a company.

CONTACT US TO DISCUSS PERSONAL TAX PLANNING



TAX CREDITS

Individuals on low incomes may be eligible to claim tax credits or the universal credit (existing claimants will move to universal credit by the end of March 2022).

The calculations for these benefits involve determining three figures:

- your maximum benefit
- your net income
- your allowance.

The maximum benefit is the amount you would receive if you had no income at all.

As some income is disregarded, it is possible someone could receive the maximum benefit even if they had a small income.

Net income is usually earnings after tax, national insurance and pension contributions.

A notional income may be added if you have capital above a certain threshold.

The allowances are the maximum amount of income you may earn and still receive the maximum benefit.

If your income is above this figure, a percentage of the excess is deducted from the maximum benefit.

PLANNING

Check to see if you qualify for these benefits as they can sometimes be payable to people with fairly high incomes.

As capital can be treated as income that reduces benefit, it may be sensible to give away funds or to spend them upgrading your property (as property value is not regarded as capital).

However, there are rules to counter blatant examples of capital reduction.



CORPORATION TAX

The main rate of corporation tax is 19% until 31 March 2020.

Corporation tax self-assessment requires companies to work out their own tax liability as part of their return and account for the 'self-assessed' liability to corporation tax.

PLANNING

Taxable profits are typically reduced by employers making pension contributions. Self-invested personal pensions are popular with many company owner-directors.

Another tax reduction strategy is to bring qualifying capital expenditure forward to take advantage of the 100% annual investment allowance. The allowance is currently available on qualifying expenditure of up to £200,000.



BUSINESS DEDUCTIONS

Business owners are entitled to claim deductions from income for costs, which are incurred wholly and exclusively in running the business.

Determining how this rule applies in practice can be a challenge. In most circumstances, a deduction may not be claimed in respect of depreciation.

However, deductions in the form of capital allowances are available for some expenditure on qualifying capital expenditure.

PLANNING

Directors' bonuses can be claimed as an in-year deductible cost so long as they are paid within nine months after the company year-end.

Pension contributions must be paid before the year-end to get tax relief in the accounting period.

Salaries can be paid to family members as long as they are justifiable and at commercial rates.

Other potentially tax-efficient ways of extracting profits include dividends and benefits in kind.



ENTREPRENEURS' RELIEF

Entrepreneurs' relief provides relief for disposals by smaller business owners.

It charges a reduced CGT rate of 10% on disposals up to the lifetime limit of £10 million, giving a potential tax saving of up to £1 million.

The relief is available on material disposals of business assets, which cover businesses operating as a sole trader, partnership or through a limited company.

It may not be available when a company is liquidated if the owner is involved in a similar business (whether a company, self-employment or a partnership) after the liquidation.

PLANNING

CGT liability is just one aspect of all the planning that goes into the wording of the final contract for sale.

Maximising the sale value and looking carefully at the proposed sale structure helps to ensure the liability to capital taxes is not a penny more than absolutely necessary.

There are several planning opportunities in this area, but there are also pitfalls if some shareholders do not qualify for this relief.



VAT

VAT is chargeable where taxable turnover is above £85,000 in the previous 12 months or you expect this threshold will be exceeded within the next 30 days.

There are schemes which simplify VAT accounting, including the cash accounting scheme, annual accounting scheme and the flat-rate scheme.

However, changes to the flat-rate scheme from April 2017 have made it less attractive (and even costly) for some businesses.

PLANNING

- Would it be appropriate for you to use one of the schemes?
- Have you reviewed the use of the flat-rate scheme and taken appropriate action, such as including voluntary deregistration for VAT if trading under the deregistration threshold (£83,000)?
- Are you claiming any VAT bad debt relief you are entitled to?
- Are you accounting for VAT on the fuel used for private motoring using the appropriate scale charge?
- Make sure you don't reclaim VAT on cars (unless you're a car dealer or taxi company, for example, or provide certain pool or leased cars for employees) or on entertaining UK customers



PENALTIES

The penalty regime covers income tax, corporation tax, VAT and IHT.

Miss the first income tax return filing deadline and the next day you are liable for a £100 fine.

Leave it for another three months and the maximum penalty rises by £10 a day up to a maximum of £900.

After six months, a further £300 or 5% of the tax due – whichever is the higher – is added. In some serious cases, the penalty can be even higher.

There are also penalties to cover the notification of starting a business and filing returns and accounts at Companies House.

Penalties range from £150 for a private company filing the accounts not more than one month late, to £7,500 for a public company filing accounts more than six months late.

GET IN TOUCH TO SEE HOW WE CAN HELP



UPCOMING CHANGES

Future rules, rates and allowances may affect your financial planning for 2018/19.

Some changes from April 2018 include:

PERSONAL ALLOWANCE AND THRESHOLD

The personal allowance for 2018/19 is £11,850.

The basic rate band threshold increases to £34,500 in 2018/19, meaning individuals who are entitled to the full personal allowance will not be liable for higher rate tax until their total income exceeds £46,350.

The national insurance contributions upper earnings limit will also rise to remain in line with the higher rate threshold.

Income tax in Scotland is set for more major changes in 2018/19.

The three-band system will be replaced with five bands, with tax rates ranging from 19% to 46%.

Individuals entitled to the full personal allowance in Scotland will begin paying the higher rate of tax at 41% when their income exceeds £44,273.

CAPITAL GAINS TAX

The annual allowance increases to £11,700 for individuals and to £5,850 for most trusts.

ISAs

The overall annual ISA subscription limit remains at £20,000, while the Junior ISA allowance increases to £4,260 from 6 April 2018.

PENSIONS

The pension lifetime allowance increases by £30,000 to £1.03 million.

VEHICLES

From 6 April 2018, the van benefit charge will increase from £3,230 to £3,350 and the van fuel benefit charge will increase from £610 to £633.

Employees provided with fuel for private mileage in a company car will see the value of the multiplier used for calculating the cash equivalent of the fuel benefit increase from £22,600 to £23,400.

The diesel supplement used to calculate the company car benefit and company car fuel benefit will rise from 3% to 4% for all diesel cars registered on or after 1 January 1998 that do not meet real driving emissions step two (RDE2) standards. Diesel cars which are certified to RDE2 standard will not be liable to the diesel supplement.

Changes from 1 January 2018:

R&D

From 1 January 2018, the rate of tax relief available to companies that carry out qualifying R&D and claim the research and development expenditure credit (RDEC) increased from 11% to 12%.

CORPORATION TAX

For a capital gain made by a company on or after 1 January 2018, the indexation allowance, which is applied in order to determine the amount of the chargeable gain, will only be calculated up to December 2017.

For disposals made after this date, the indexation will no longer be calculated up to the month in which the disposal of the asset occurs.

TALK TO US ABOUT TAX PLANNING

NOTES

A large grid of dotted lines for taking notes, consisting of 20 columns and 30 rows of small dots.



info@championgroup.co.uk

www.championgroup.co.uk

0161 703 2500

1 Worsley Court High Street
Worsley
Manchester
M28 3NJ

YEAR-END TAX GUIDE

2017/18