Year End Tax Planning Guide - Income Tax

The purpose of this guide is to highlight a number of actions that should be taken either to ensure tax efficiency for individuals in the current tax year or the next and with potential benefit in subsequent tax years. There is much to gain from carrying out relatively simple steps which can yield tax savings. As ever, such recommendations depend upon the specific circumstances of each case and advice should always be taken before implementing any steps.

Income Tax 2015

- Assess income elections on jointly owned assets. It is possible to elect to vary these and to ensure that income falls on the spouse/civil partner with the lowest marginal tax rate. It may be important to effect these in advance to enjoy full benefit for the subsequent tax year.

- Consider the outright transfer of assets to spouse/civil partner where personal reliefs and lower bands of tax may be under-utilised.

- Consider pension contributions especially if marginal rates are unlikely to persist. Alternatively ensure that capacity to contribute is not lost by not making adequate contributions before 5 April.

- If you have no "relevant earnings" consider contributions to a stakeholder pension.

- If income falls between £100k and £120k your personal allowance abates giving an effective marginal rate of tax of 60%. Again, the benefit of pension contributions and charitable contributions may assist here . Alternatively, it may be possible to gain benefit by deferring income into a later year where income may be lower or even if you are aware it is going to be significantly higher (ie considerably in excess of £120k).

- Subject to investment advice, consider subscriptions to Venture Capital Trusts (VCTs) or to companies qualifying under the Enterprise Scheme (EIS) or Seed Enterprise schemes (SEIS). The former two attract a tax credit at 30% , the latter at 50%. There are other tax benefits to these types of investment not least the capital gains tax benefits of EIS and SEIS. These reliefs impose requirements at the outset and during the life of the investment but a limit on investment in any one year is as follows:

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VCT	£200,000
EIS	£1 million
SEIS	£100,000

Beware there are certain tax deductions that have a limitation on their ability to get a tax deduction most notably for qualifying loan interest and loss reliefs. The limit is the higher of £50,000 and 25% of taxable income.

- If you are an employee enjoying salary substitution options, consider tax efficiency of child care or other tax efficient benefits not least low emission cars which carry a low benefit in kind charge.

- Maximise ,subject to taking any necessary investment advice, taking full advantage of ISA transfers. In the current year it is possible to transfer £15,000.

- Given the relaxation of the restrictions of drawdown from pension schemes it is increasingly advisable to forecast income levels so as to plan the income efficiency of such withdrawals.

- Charitable contributions under Gift Aid qualify individuals for additional tax benefits. Such relief is equal to an effective rate of 25% or 31.25% of the actual sums donated depending on your level of income. Ensure documentation is retained so that reliefs can be claimed. Additional flexibility is available with the ability to treat donations to be related back to the previous tax year. This can often accelerate the benefit of the tax relief as well as the possibility of a higher effective relief if the marginal rate of tax is higher in the previous year compared with the current year.

- Review claims to Child benefit. It may be preferred to disclaim so as to avoid income tax charges.

- Income enjoyed by children from capital provided by parents (but not grandparents) is taxable on parents where children are aged under 18. For older children some benefit may be considered attractive for children to enjoy income derived form donated assets.

- Non domiciliaries need to carefully review the need for the remittance basis charge to apply. More significantly, planning is required ahead of the 6 year anniversary of arrival.

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