YOUR GUIDE
Year End Tax Planning
2016/17

MENZIES
BRIGHTER THINKING

INTRODUCTION

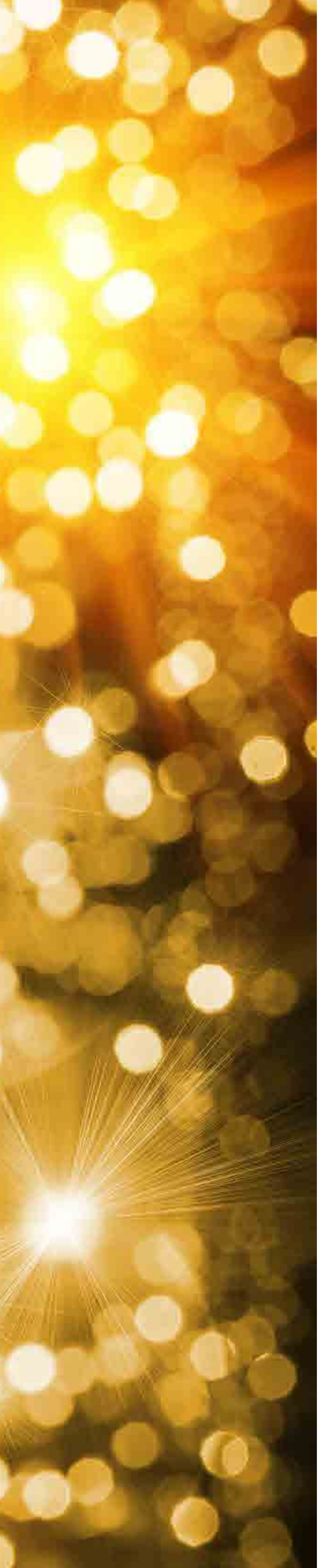
As the end of the 2016/17 tax year end approaches, it is important that you take the time to review your financial and tax arrangements, and consider what actions you may need to take before the start of the new tax year on 6 April 2017.

Taking action before the end of the tax year may give you the opportunity to take advantage of reliefs, allowances and exemptions whilst they remain available. At the same time, you should be considering whether there are any relevant elections that you need to make before the start of the new tax year, and before the chance to do so passes.

This planner summarises some of the key year end tax tips. As always, we recommend that you seek professional advice when undertaking tax planning so please do speak with your Menzies contact; we will be delighted to discuss with you the issues involved and any appropriate action you may need to take.

We are always delighted to speak over the phone or to discuss matters face to face so please do contact us.

Menzies Private Client Team



INCOME TAX

ALLOWABLE DEDUCTIONS: REDUCING YOUR INCOME

For those with incomes of over £100,000, the income tax personal allowance (of £11,000) begins to be withdrawn at a rate of £1 for every £2 of income above £100,000. Additionally, those with incomes of over £150,000 will be subject to the additional rate of tax (45%). In these instances, you may wish to consider if there are any income tax deductions that can be claimed to reduce your income (such as donations under Gift Aid, transferring income to others or by making pension contributions).

ALLOWANCES: MARRIED COUPLES

Each spouse is taxed separately, and so it is an important element of basic planning to utilise each person's personal reliefs, as well as their starting and basic rate tax bands.

It may be beneficial to consider gifts of income producing assets (which must be outright and unconditional) to distribute income more evenly between spouses. As an illustration, the transfer of assets producing £40,000 of income per year from an additional rate (45%) taxpayer to their non-earning spouse may save up to £12,200 of income tax per tax year.

Income from jointly owned assets is generally shared equally for tax purposes. This applies even where the asset is owned in unequal shares unless an election is made to split the income in proportion to the ownership of the asset.

ALLOWANCES: CHILDREN

Children have their own allowances and tax bands. It may be possible for tax savings to be achieved by the transfer of income producing assets to a child.

Generally this is ineffective if the parent puts aside funds for their minor child (as the income remains taxable on the parent unless the income arising amounts to no more than £100 gross per annum). However it may be relevant to parents with adult children or for grandparents who wish to make gifts to their grandchildren (even if minors).

Junior Individual Savings Account (Junior ISA) were introduced to replace Child Trust Funds (CTF) and can be used to fund higher education. Both CTF and Junior ISA accounts allow parents, other family members or friends to invest up to £4,128 annually in a tax free fund for a child. There are no Government contributions and no access to the funds until the child reaches 18.

INDIVIDUAL SAVINGS ACCOUNT (ISAs)

Annually, up to £15,240 can be put into an ISA in 2016/17 with an expected increase to £20,000 in 2017/18. This is therefore a useful technique for converting taxable interest and dividends into non-taxable income. The deadline for investing into an ISA is 5 April 2017 as there is no way to utilise unused reliefs in future years. For individuals, with the correct timing, ISA contributions made across 2016/17 and 2017/18 can total over £35,000. For a husband and wife this total would increase to over £70,000.

CHILD BENEFIT TAX CHARGE

For those with income over £50,000 or are part of a couple where one of you earns over £50,000 then part or all of the Child Benefit claimed will be clawed back. If your income is over £60,000 you may therefore consider disclaiming Child Benefit to avoid a claw back tax charge. However if the claimant of child benefit is not themselves working then disclaiming it will mean the year does not qualify for State Pension purposes and you should just ask for payment to be stopped rather than disclaiming it altogether.

DIVIDENDS

From 6 April 2016 the new dividend allowance was introduced. Tax credits have been abolished and replaced with a tax free allowance threshold. For the first £5,000 of dividend income there will be no tax payable. Dividends received over and above the £5,000 tax free dividend allowance will be subject to tax at 7.5% (basic rate), 32.5% (higher rate) and 38.1% (additional rate).

Before the end of tax year, consider your dividend position and where applicable and possible ensure that the £5,000 tax free dividend allowance is not left unutilised.

PROPERTY

With affect from 6th April 2017 the finance costs restriction will be introduced, where the full interest expense will be replaced by a tax reducer over a 4 year period. Items that are included under finance costs include mortgages, loans – including loans to buy furnishings and overdrafts.

For the 2017/18 tax year, the restriction that applies consists of 75% of the total finance cost being allowable as a deduction against rental income, and the balance claimed as a tax reducer. This reducer will be given in the form of a 20% reduction based on the lower of; 100% of the finance cost, property profits or adjusted total income exceeding personal allowance.

Therefore, individuals with let property may need to review their position and consider the initial and long term impacts this may have on their property income and tax liability.

GIFTS TO CHARITY

Charitable donations made under the Gift Aid scheme can result in significant benefits for both the donor and the charity. A cash gift of £80 will generate a tax refund of £20 for the charity so that it ends up with £100. The donor will get higher rate tax relief of £20 so that the net cost of the gift is only £60. Where the 45% additional rate of tax applies, the net cost of the gift in this example would be only £55 for an individual liable at this rate.

In addition, tax relief against 2016/17 income is possible for charitable donations made between 6 April 2017 and 31 January 2018 providing the payment is made before filing the 2016/17 tax return. Always remember to keep a record of any gifts you make. It may also be possible to make gifts of quoted shares and securities or land and buildings to charities and claim income tax relief on the value of the gift. This may be tax efficient for larger charitable donations.

CAPITAL GAINS TAX (CGT)

The decision to sell capital assets should first of all be driven by investment considerations rather than tax; an Independent Financial Adviser, such as one of my colleagues from Menzies Wealth Management, should be consulted. Provided it makes investment sense, you may wish to consider the below points before the tax year end:

- The first £11,100 of gains made in 2016/17 are CGT-free. Each spouse has their own annual exemption, as indeed do children. As the annual exemption cannot be carried forward, you and your spouse should use it rather than lose it.
- Similar to the above, transferring assets to a lower earning spouse may create an opportunity to utilise their basic rate band so that CGT applies at 10% rather than up to 20% . (These rates are 18% and 28% for residential property).
- If you have made a gain in the year and have other assets standing at a loss you may consider crystallising the losses to reduce your CGT liability.
- Where you are planning on selling an asset, you may wish to consider delaying the sale in some circumstances until after the end of the tax year. Delaying may be helpful from a cash flow perspective as the tax will not be due until 31 January 2019.

You may wish to consider:

- Sale by one spouse and repurchase by the other.
- Sale followed by repurchase via an Individual Savings Account.

These techniques may also be used to establish a loss that can be set against any gains.

- When selling a property that has been your main residence at some point the final 18 months of ownership are deemed to be CGT exempt whether you are living there or not. You should consider the timing of a sale or making a PPR election if you have more than one home.
- UK CGT now applies to non-UK residents on the sale of UK residential property. If you are already non-UK resident or are considering moving abroad, you should consider your CGT position in advance of either selling or relocating overseas. HMRC must be notified within 30 days of the sale or disposal of a UK property and a non-resident CGT return completed.
- Entrepreneurs’ relief (ER) allows 10% CGT to apply for qualifying disposals. There are a number of important conditions but generally ER applies to the sale of all, or part of a trading business and the sale of shares in a qualifying company where you hold more than 5% of the nominal share capital and voting rights, and you are an officer/employee of the company. Planning may be available to adjust shareholdings so that the necessary 5% is held or so that other family members may also qualify for ER.

TAX EFFICIENT INVESTMENTS

It is possible to obtain additional income tax and capital gains tax reliefs by investing in tax efficient investments. Such investments carry risk to your capital and may not therefore be suitable for you even if they are tax efficient. An Independent Financial Adviser, including Menzies Wealth Management, can provide expert advice in this area.

ENTERPRISE INVESTMENT SCHEME (EIS)

EIS allows income tax relief at 30% on new equity investment (in qualifying unquoted trading companies) of up to £1 million in 2016/17. It is also possible to carry back relief to the 2015/16 tax year if the £1 million limit was not utilised last year.

Additionally:

- EIS gains are exempt from CGT (if held for at least 3 years).
- EIS losses could be set against your taxable income (rather than capital gains).
- Other capital gains can be deferred to the extent that you invest in EIS investments.

We can assist companies by completing an EIS application form with the aim of obtaining EIS approval from HMRC, which may help a company to attract investment given the tax benefits that will be on offer to investors.

SEED EIS (SEIS)

The SEIS scheme provides an income tax deduction worth up to 50% of investments of up to £100,000 per annum, and if the full amount is not utilised, any surplus may be carried back to the previous year up to the same limit.

Additionally:

- CGT exemption is available on gains on shares.
- SEIS CGT reinvestment exemption allows capital gains to be reinvested in a SEIS qualifying company and 50% of the chargeable gain will be exempt.
- SEIS losses can be set against income.

VENTURE CAPITAL TRUST (VCT)

A VCT is a collective investment fund which invests in unquoted trading company shares. VCT dividends and gains can be tax free.

Income tax relief currently at 30% is available on subscriptions for VCT shares up to £200,000 per tax year so long as the shares are held for at least five years.

SOCIAL INVESTMENT TAX RELIEF

Making a qualifying investment may deliver a 30% income tax deduction of the value of the investment. CGT on chargeable gains may be deferred to the extent that you reinvest the profits in social enterprises such as charities or community interest companies.

INHERITANCE TAX (IHT)

IHT is a complex area and regular advice in this area is recommended as a person's IHT exposure is likely to change from year to year. As a general guide, it is key to make sure that you have a tax efficient Will in place and that you consider taking appropriate life assurance cover to help protect your family financially.

In addition to a regular consideration of your IHT exposure, you may wish to use the year end to consider the following:

- Utilise your IHT annual exemption: Gifts of up to £3,000 per year can be made on an IHT free basis. The limit increases to £6,000 if the previous year's annual exemption was not used. A married couple can therefore make IHT exempt gifts totaling £12,000 per tax year. You should also consider using other annual gifts such as gifts in consideration of marriage or £250 small gifts.
- Gifts out of income: There is an exemption for making regular gifts out of income of any size where certain conditions are met. This exemption means that sizable gifts can potentially be made but in a way that the gifted amounts instantly fall outside of your taxable estate upon death (rather than waiting for a 7 year period).
- Business property relief (BPR): BPR is a key relief that may apply to exempt or partially exempt business property on death. BPR is an important part of succession planning but due to the complexity of the BPR rules, there are a number of pitfalls which mean that BPR may not be due even though you expected to meet the conditions. It is important to regularly review your BPR position to ensure that it continues to apply and that your business activities do not jeopardise your BPR position.
- Passing on your pension: In April 2015, some key changes to the taxation of pension death benefits were introduced. These changes allow for an individual to pass on their pension pot from generation to generation in a tax efficient manner. Since then, if death occurs before age 75, the pension fund can be passed on tax-free to a beneficiary. If death occurs after 75, the fund can be drawn by a beneficiary at their own marginal rate of tax. A beneficiary will have the option to receive the death benefits either as a lump sum, drawdown or an annuity. The definition of a beneficiary is much wider than that of a dependent, allowing considerable freedom in choosing who you want to benefit from your pension fund.

  If death benefits are paid as a lump sum, those benefits would form part of a beneficiaries estate. Therefore, an efficient way to pass on death benefits is to consider 'dependents drawdown'. This would allow the beneficiary to continue to enjoy the tax advantages associated with investing in a pension, whilst allowing them to draw income as and when required. The fund could then be used as a further legacy for them to pass on to their own beneficiaries.

  Please note that it is important that death benefit nomination forms are reviewed as individuals who you want to have the option to benefit from dependents drawdown will need to be included on these. In our opinion, pensions should be considered in the context of IHT and alongside any Will planning.

Reviewing your Will

It is important that your current Will is up to date and in line with your future wishes. A review of your Will can help to ensure that all details are correct and there are no misstatements which may lead to parts of your estate not being administered as you intended. This can also have an adverse effect on your inheritance tax position and the amounts chargeable to inheritance tax.

However, if you do not have a Will in place we would advise taking the time to create one therefore minimising the risk that the state will determine how the assets are distributed on death.

As this is an important and complex area we advise you to contact us with any questions you may have, we are able to offer services to assist you on both review and preparation of your Will.

Planning for the future

It’s never too early to get started on planning ahead for the future. Having a plan in place will not only ensure your affairs are structured in the most tax efficient manner but also allow you to optimise and consider your estate position and possible investment options. There are many different aspects to consider when looking to plan ahead for the future, including the possibility of moving to or departing the UK, current domicile position and the inheritance tax implications associated with domicile, retaining your profits and tax efficient savings for financially secure retirement.

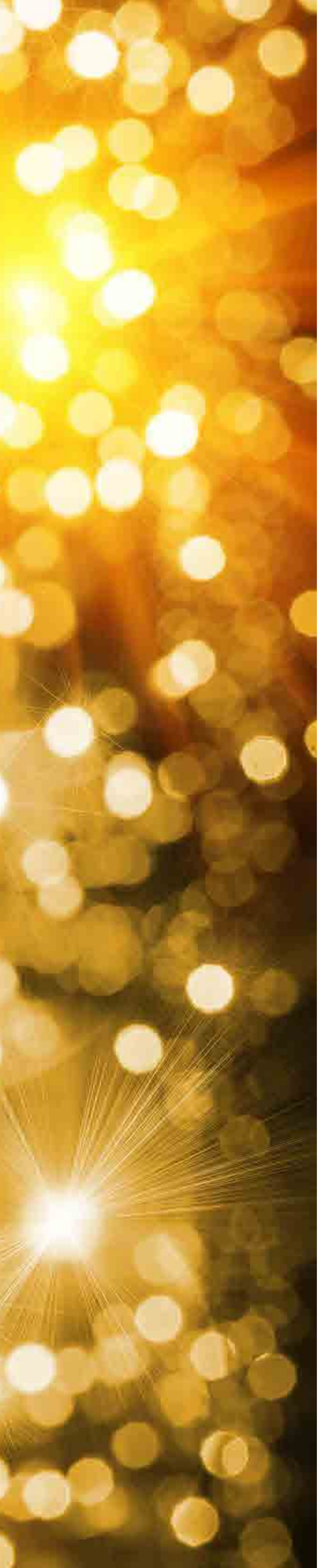
Any questions or queries you may have regarding your future planning please do contact us to discuss your position.

Additional Residence Nil Rate Band

From 6th April 2017 there will be an additional residence nil rate band (RNRB) available for an estate if an individual passes on their home to a direct descendant on the individuals death.

Any unused RNRB can be transferred to a surviving spouse or civil partner. For 2017/18 the RNRB that may be available will be £100,000.

This additional allowance could be beneficial to many individuals and should be taken into consideration with regards to any future tax and estate planning.



PENSIONS

The combination of tax relief on contributions, tax-free growth within the fund, accessibility from age 55 and of course tax efficient death benefits can make your pension particularly useful for both retirement and estate planning. There are many opportunities for pension planning but as this a complex area and we suggest you take Independent Financial Advice from an IFA before taking action. If you don't have an IFA we would be pleased to introduce you to Menzies Wealth Management.

LIFETIME ALLOWANCE (LTA)

Pension contributions paid by an individual continue to attract tax relief at their marginal rate. The LTA for pension savings was reduced to £1 million with effect from 6 April 2016. As with previous reductions in the LTA, the government has provided transitional protections but unlike previous instances the government has not set a deadline for applications. This means that in certain circumstances some individuals may still be able to apply for protection. This may be relevant for individuals who have already accumulated substantial money purchase pension funds (e.g. Personal Pension) or those who are high earners (or have been high earners) in relation to membership of a Defined Benefit Scheme. LTA advice is a particularly complex area and individuals should think very carefully before foregoing valuable benefits from an employer (e.g. Employer Pension Contribution or accrual under a Defined Benefit Scheme) simply to avoid a Lifetime Allowance Charge. Of course each situation should be considered on its own merits but we would encourage you to seek advice from an Independent Financial Adviser before taking action.

PENSION CARRY FORWARD

The pension annual allowance can be carried forward for 3 tax years providing that you were a member of a registered pension scheme during that period. Any unused annual allowance for the 3 previous tax years (2013/14, 2014/15 and 2015/16) can be added to your 2016/17 allowance (giving a maximum contribution of £170,000) and will attract tax relief at your marginal rate. If you are a business owner, there may be an opportunity to extract profits tax efficiently by making this contribution through your company. The last opportunity to utilise any available carry forward allowance available from the 2013/14 tax year will be 5 April 2017. It is key to note that the allowance limit in 2013/14 was £50,000, the following tax years have a lower limit of £40,000.

PENSION TAPERED TAX RELIEF

Since 6 April 2016, pension tapered tax relief has restricted the pension allowance of individuals with adjusted net income exceeding £150,000. These individuals have seen their standard allowance of £40,000 reduced by £1 for every £2 of income in excess of £150,000. Individuals with an adjusted net income in excess of £210,000 will suffer the full reduction of their annual allowance to £10,000. No tax relief will be available for contributions in excess of this figures. The definition of adjusted net income is complex but notably includes employer pension contributions as well as other sources of income such as rental income.

PENSION FREEDOM REFORMS

The pension freedom reforms introduced in recent years allow an individual aged over 55 to withdraw their entire pension fund as a lump sum. However, individuals considering doing so should be aware that pension funds withdrawn as 'income' are taxable at the recipient's marginal rate. A lump sum withdrawal can therefore result in a significantly higher tax bill than would be the case if the same income was withdrawn over multiple tax years, utilising each year's respective allowances and income thresholds. Individuals should also note our earlier comments regarding the IHT efficient nature of pension death benefits as the withdrawal of lump sums will add to the 'taxable estate' when accumulated rather than spent. Again each situation should be considered on its own merits but we would encourage you to seek advice from an Independent Financial Adviser before taking action.

INTERNATIONAL & OFFSHORE

RESIDENCY RULES

As a consequence of the new Statutory Residency Test (SRT) you can enjoy more certainty as regards your residency status for UK tax purposes. That said the rules still require careful thought and planning especially for those who believe that they are non-UK tax resident but continue to visit the UK.

For those relocating to the UK, it is key that UK tax advice is taken beforehand. This is because a great deal of the planning opportunities that are available cannot be implemented once you have become UK tax resident.

Under the SRT an individual is treated as being UK tax resident for the whole of the tax year even if they arrive or leave part way through. In many cases the 'spilt year treatment', as it is known, will apply to ensure that you are not subject to UK taxes for the period prior to or after having lived in the UK.

In cases where the spilt year treatment does not apply it is generally advisable for those leaving the UK to do so just before the start of the new tax year. In contrast those arriving in the UK without the benefit of the spilt year treatment should consider relocating to the UK just after the start of the tax year.

If you are thinking of either relocating to or from the UK it is crucial that you speak to your Menzies contact to ensure that you are not unduly exposed to UK taxes. We can also help devise a clear tax efficient relocation strategy.

NON-UK DOMICILIARIES

Foreign domiciliaries, sometimes referred to as Non-UK domiciliaries, will be burdened with having to consider a number of statutory changes that are likely to be implemented. The detail falls outside the scope of this planner. Nonetheless we specialise in providing bespoke tax advice to foreign domiciliaries, and for that reason please do not hesitate to contact us if you have any queries in this regard.

In brief there are several fundamental legislative changes that are expected to apply from 6 April 2017. Many of these will require thought and planning before the start of the new tax year. Even if you feel that the changes are unlikely to affect you please seek clarity from your contact at Menzies or a member of Menzies Offshore Services team as soon as possible.

THE CHANGES

The main areas of change are as follows:

- UK Deemed Domicile for all tax purposes: Foreign domiciliaries will be deemed UK domiciled for Income Tax, Capital Gains Tax (CGT) and Inheritance Tax (IHT) purposes once UK tax resident for at least 15 out of the past 20 tax years.
    - Such individuals will from 6 April 2017 be taxed on their worldwide income and capital gains on an arising basis.
    - They will also be subject to UK IHT (currently set at 40%) on their worldwide assets, that is unless suitable planning is undertaken.
    - IHT protection will be available for trusts created by and individual before they become deemed UK domiciled.
    - Those who will become deemed UK domiciled on or after 6 April 2017 should speak with their Menzies contact to ensure that the necessary planning is put in place, which ranges from simple bank arrangements to complex offshore structures.
- The Returning Foreign Domiciliary (RFD): Individuals who have enjoyed a foreign domicile of choice, that is to say they have previously left the

UK to settle overseas, but later chose to return to the UK, will be treated as having a UK domicile from the point that they become UK tax resident. In effect their UK domicile of origin will revert immediately, and worse still as if it had never been relinquished.

    - A RFD is an individual who was born in the UK and had a UK domicile of origin.
    - Foreign residents that originally had ties with the UK who wish to relocate to the UK should carefully consider how these new rules will affect them as with arrangements that were established whilst they were not UK tax resident.
    - The risk is that one might accidentally become UK tax resident and immediately fall within the scope of UK income tax, CGT and IHT.

- Rebasing of capital assets: Capital gains that are realised after 6 April 2017 will enjoy freedom from CGT to the extent that the gain accrued before that date.

    - This will be achieved by the application of a rebasing election which will apply on an asset for asset basis.
    - The relief will only be available to individuals personally owned assets and to those individuals who are deemed UK domiciled on 6 April 2017.
    - Where rebasing applies, an individual should consider delaying any plans to sell relevant capital assets before 6 April 2017.

- Accessing trapped clean capital: UK tax resident foreign domiciliaries who have clean capital trapped within a ‘mixed fund’ may, from 6 April 2017, be able to cleanse the fund so as to access the tax free clean capital directly.

- UK residential property: Legislative changes will provide that UK IHT will apply in relation to UK residential property in cases where it would previously have been protected.

    - Examples include cases where the property was held through a non-UK corporate structure directly or as part of a structure headed by a trust.
    - If you own UK residential property through structure or not you should seek advice in connection with the exposure to UK IHT options that could be available to reduce the burden.

- Business Investment Relief (BIR): BIR allows UK tax resident foreign domiciliaries to invest untaxed foreign income and gains in qualifying UK businesses without triggering a UK tax charge.

    - From 6 April 2017 the scope for relief has been widened, and its application less restrictive.

- Ridged procedures must be followed for the relief to apply, as with HMRC clearance.

- Offshore Trusts: UK resident settlers and or beneficiaries of foreign trusts should seek advice so as to clarify how the forthcoming legislative changes will affect them.

For more information on the changes affecting UK tax resident foreign domiciliaries, and to learn more about key planning required before the end of the current tax year, please speak to your Menzies contact or visit https://www.menzies.co.uk/insights/offshore-services

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