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Growing &
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NOT JUST TAX YEAR END PLANNING…

In 2015, tax-year-end planning is set to be rather different. A quick look at a few dates shows why:

Date	Event
18 March	Budget 2015 (probably the first of two in the year)
30 March	Dissolution of Parliament
3 April	Good Friday
5 April	Easter Sunday: End of 2014/15 tax year
6 April	Easter Monday. Start of 2015/16 tax year
4 May	Early Spring Bank Holiday
7 May	General election
TBA (Early June?)	Return of Parliament

The brief gap between Budget Day and the end of the Parliamentary session means that there is unlikely to be anything controversial in Mr Osborne's last set piece before the polls: there will simply not be time to force the legislation through. The corollary is that June could witness another Budget, as was the case in 2010.

The post-poll Budget will be when any tax-increase medicine is dispensed, regardless of the complexion(s) of the new government. As the Institute for Fiscal Studies (IFS) recently pointed out, since 1992 each election has been followed within twelve months by an announcement of over £5bn in net tax increases, roughly equivalent today to a 1% rise in the rate of income tax, main rate of VAT or National Insurance contributions for employees and the self-employed.

Thus in early spring 2015 the tax year end is only part of the planning story. You also need to consider the start of the new tax year – with a new set of annual exemptions – and the potential impact of a new government. The list of issues to review is potentially large and includes the following:

Income Tax

2014/15 saw few changes to income tax, with the £560 rise in the personal allowance to £10,000 the most notable. The threshold for higher rate tax rose by a more modest £415 and the total income trigger points for child benefit tax (£50,000), phasing out of the personal allowance (£100,000) and additional rate tax (£150,000) were unmoved. As has been the case for some years, the overall effect was to drag more people into the higher rate tax band and collect extra from those already there.

If you are affected by any of the frozen trigger points, then there may be scope to reduce their chilling effect, either in the current tax year or 2015/16. For example, if your 2014/15 total income is £110,000, then making a pension contribution of up to

£10,000 before 3 April (allowing for Easter!) could provide you with 40% income tax relief and another 20% of effective relief through regained personal allowance. In 2015/16 the same strategy would work, at least until any new government decides to end higher rate tax relief on pension contributions (see below).

In 2015/16 there are two important income tax changes, both of which may not endure beyond the year. Nevertheless, they could be useful to you while they last:

- The starting rate band for savings income will widen from £2,880 to £5,000 and the rate will drop from 10% to 0%. In practice, most people do not benefit from the savings rate band because their earnings and/or pension cover it. But if you or your spouse/civil partner has total earnings and pension below £15,600 a year, you could benefit if you have the right type of investment income.

- The transferable tax allowance (TTA) becomes reality, worth up to £212 in tax saving. You will only be able claim the TTA ï which transfers £1,060 of allowance between the two of you ï if neither of you pay tax at more than the basic rate.

Inheritance Tax (IHT)

Inheritance tax is one area where there might be reform after the election. During the current Parliament, the nil rate band has remained lodged at £325,000 and, barring any new legislation, it will stay until at least April 2018. HMRCös statistics show the impact of the freeze is eroding the advantage of the transferable nil rate band, introduced in October 2007: IHT provided over 40% more for the Exchequer in 2013/14 than it did in 2009/10. This figure could near enough double by 2016/17 according to projections from the Office for Budget Responsibility.

The quiet turning of the IHT screw means that, regardless of possible reform, you should not waste the three main yearly exemptions:

1. *The Annual Exemption* Each tax year you can give away £3,000 free of IHT. If you do not use all of the exemption in one year, you can carry forward the unused element, but only to the following tax year, when it can only be used *after* that yearös exemption has been exhausted.

   For instance, if you did not use the annual exemption in the last tax year, 2013/14, you can still use it by 5 April 2015 (watch Easter ï what matters for cheques is the clearing date), but only once you have fully used the 2014/15 exemption. Thus a gift of up to £6,000 (£12,000 for a couple) can escape IHT.

2. *The Small Gifts Exemption* You can give up to £250 outright per tax year free of IHT to as many people as you wish, so long as they do not receive any part of the £3,000 exemption. Good news if you have plenty of grandchildren.

3. *The Normal Expenditure Exemption* The normal expenditure exemption can be the most valuable of the yearly IHT exemptions, particularly when combined with pension planning. A gift is exempt from IHT provided that you make it regularly, it is out of income (*not* capital) and its does not reduce your standard of living. Importantly, there are no cash limits for this exemption. You could give away dividend or other investment income which would otherwise usually be reinvested, with the normal expenditure exemption covering the gift. This includes ISA interest and dividends, even though they will have generally enjoyed favourable income tax treatment.

Capital Gains Tax (CGT)

CGT is an area where the tax burden could rise after the election. The Liberal Democrats are talking about a top tax rate of 35% (against 28% currently) and a reduction in the annual exemption from today's £11,000 to just £2,500. This could come quickly as a mid-tax year reform.

After the last change of government in 2010, the emergency Budget on 22 June introduced dual rates of CGT, but the old single rate nevertheless applied to transactions that occurred before Budget Day. This sets a useful precedent for what could happen in 2015 and suggests that early use of the 2015/16 annual CGT exemption (£11,100) may be advisable.

Regular use of your annual exemption is one way to avoid the situation where gains built up over a period of years lead to a tax bill for rebalancing your portfolio or drawing out some cash. This year's annual exemption could save you nearly £3,100 in tax if you pay tax at more than basic rate.

If you cannot avoid capital gains tax, then take care with the timing of your gains and losses:

- A gain realised on 2 April 2015 (the last trading day of 2014/15) will mean tax payable on 31 January 2016.
- A gain realised on 7 April 2015 (after the Easter holiday weekend) will move the tax payment date to 31 January 2017.

Similarly, timing when you crystallise any losses also needs care. The general rule is that losses are set against gains made in the same tax year *before* the annual exemption is applied. Thus you should avoid realising losses in the same tax year as that in which you realise gains unless your gains exceed the annual exempt amount. This could be a point to watch if you hold shares in Standard Life, which is currently scheduled to make a B/C share payment before the end of this tax year (and a change in the rules which will put an end to such schemes).

Pensions

2014/15 saw reductions in both the annual allowance and the lifetime allowance. 2015/16 will see the start of the much-heralded pension flexibility for money purchase schemes, although how many providers will be willing and/or able to handle all the flexibilities from 6 April remains to be seen. The main legislation introducing the new rules only completed its path through Parliament shortly before Christmas and there are still further adjustments which must await this year's (hurried) Finance Bill.

In terms of immediate planning, more significant than the 2015/16 reforms to income payments is the big unknown: what will happen to tax relief on pension contributions after the election?

The Labour Party has said it will reduce contribution tax relief to basic rate for those earning more than £150,000, while the Liberal Democrats have talked in terms of a flat rate of relief, possibly 25%-30%. The Conservatives have said nothing, but one think-tank closely associated with the party has also come out in favour of flat rate relief. Whatever the colour(s) of the post-7 May government, there will be a temptation for the newly installed hungry-for-income Chancellor to reduce pension contribution tax relief. It helps that the relief mechanism is not well understood by much of the public. According to the IFS, if tax relief on contributions were limited to basic rate only, £10bn a year would flow into the Exchequer's coffers.

A review of your maximum pension contribution options both sides of 5 April is therefore a priority. In theory it is possible, by combined use of the rules on carry forward and pension input periods, to contribute up to £270,000 with full tax relief, spread across the end of 2014/15 and the start of 2015/16, if your circumstances permit. In any event, 2014/15 is your last opportunity to carry forward up to £50,000 of unused annual allowance from 2011/12.

ACTION

If you are just about to draw benefits from your pension plans, then it might be worthwhile starting income drawdown now, under the current rules, rather than waiting for April's flexibility to begin (if your providers can offer it).

The circumstances where this can be advisable are limited, so please contact us as soon as possible if you are on the verge of turning your pension savings into income.

Individual Savings Accounts (ISAs)

The rules for ISAs were recast from 1 July 2014, with further changes due from this April. The standard ISA contribution limit for 2014/15 is £15,000 (it was £11,880 before 1 July). There is now no separate limit for how much may be placed in a cash ISA so, in theory, you could place all £15,000 on deposit. However, you will need to lock up your cash at a fixed rate for at least three years if you want an interest rate that starts with a 2 (3% is nowhere to be seen). The 2015/16 ISA limit will be £15,240.

For the Junior ISA, the 2014/15 limit is £4,000, having been £3,840 before July. The same £4,000 ceiling applies to Child Trust Funds. The corresponding 2015/16 limits are just £80 more - £4,080.

There are no carry forward provisions for contributions to ISAs - like the capital gains tax annual exemption, the choice is "use it or lose it". Placing as much as you can into your ISA investment each tax year is good practice and this year, with the election looming, it is doubly important. It was only 18 months ago that the Treasury was examining the capping of ISAs. While the idea got no further on that occasion, the fact that the groundwork has been undertaken makes it that much easier for restrictions to be imposed post-election.

If you want to maximise your ISA input, you do not have to produce £15,000 of cash (or £30,240 for both tax years). Usually you can sell existing, directly-held investments and then repurchase them within the ISA framework. Inevitably this will involve some costs, but it can be a practical way of using your annual capital gains tax exemption(s). One useful aspect is that the rules which effectively prevent you from personally selling and then immediately repurchasing the same investment just to realise a gain do not apply if the repurchase is via an ISA.

Following the Chancellor's Autumn Statement announcement, the tax benefits of your ISA can now be inherited by your surviving spouse or civil partner. Final details are still awaited, but it does add to the attractions of ISAs for retirement planning. Alongside the relaxations on the tax treatment of pension benefits, it may mean you should look to your ISA first for income in retirement and, as far as possible, leave your pension plan untouched and outside the IHT net.

As a reminder, the main tax benefits of ISAs following last July's changes are:

- There is no UK tax on dividends in a stocks and shares ISA, although tax credits cannot be reclaimed.
- Interest is received UK tax-free in all ISAs. The flat 20% rate which applied to interest on cash held in a stocks and shares ISA has been abolished.
- There is no capital gains tax on profits.

- ISA income and gains do not have to be reported on your tax return and are ignored for child benefit tax.

- ISA transfers can be made between the cash and stocks and shares components *and* vice versa, with no restrictions. The transfer might be worth examining if you have old cash ISAs, where interest could be no more than base rate (0.5%).

- AIM shares held in an ISA are subject to the normal inheritance tax rules and therefore can qualify for 100% IHT business property relief after two years of ownership.

Venture Capital Trusts (VCTs) and Enterprise Investment Schemes (EISs)

VCT and EIS rules are regularly revised, with the latest, a tweaking in the eligible investment rules, due from April 2015. There is the possibility of further changes following a consultation paper issued last summer in response to revised EU state aid rules.

The current tax benefits of VCTs and EISs are:

Feature	**VCT**	**EIS**
Income tax relief on initial investment	30% on investments up to £200,000 per tax year	30% on investments up to £1,000,000 per tax year
Minimum holding period to avoid tax relief clawback	5 years	3 years
Dividends	Tax-free (but no reclaim for tax credits) and often paid from capital gains, not income	Taxable (but profits usually retained, not distributed)
CGT reinvestment relief	None	Gains may be reinvested in an EIS up to three years after realisation or one year before. No limit.
Capital gains on proceeds	Nil	Nil (except for reinvested gain)
IHT business assets relief	None	Usually available after two yearsôownership

VCTs and EIS are high risk investments in small unlisted companies and should only form a small part of a well-diversified investment portfolio. In 2014/15 the choice of VCTs has narrowed somewhat because two major and well-respected providers withdrew almost entirely from the market, having raised so much in 2013/14. That makes selection from the remainder all the more important. Remember, the investment risks involved are the main reason why the government is prepared to offer generous tax reliefs.

ACTION

Call us now to arrange for a comprehensive tax planning review. The sooner you contact us, the sooner we can begin work on your strategy and decide on actions for this tax year and the early part of next tax year.

AUTOMATIC ENROLMENT: ERRORS BEGINING TO MOUNT

In late January, the Pensions Regulator (TPR) released its latest quarterly figures for compliance with the auto-enrolment (AE) pension regime. Earlier reports had been rather dull affairs, with AE rolling out with little need for regulatory intervention. The latest is rather different, as the table below shows:

Pension Regulator Action	**October 2012-September 2014**	**October 2014-December 2014**
Compliance notices issued TPR sends out compliance notices where there has been a contravention of one or more automatic enrolment employer duty provisions which must be remedied	177	1,139
Unpaid contributions notices issued As the name suggests, TPR sends these to employers who have not made the required pension contributions on time	1	7
Fixed penalty notices issued This is a flat £400 penalty for failure to comply with a statutory notice or a specific employer duty	3	166

The jump in notices issued reflects the fact that AE is now moving down through the employer universe to medium-sized employers: around 30,000 employers, (with approximately 62 to149 workers), reached their AE staging date in April-July 2014. They all should have completed their declaration of compliance with AE law by the start of December 2014 but, as the table shows, many did not hit the deadline.

TPR repeated its warning that employers should start the process of AE planning a year before their staging date. It also added that "failing to declare within five months of your staging date means you risk being fined."

ACTION

If your business is yet to enter the automatic enrolment process, do not think that you can leave things until the last moment or just wait for TPR to give you a nudge. The sooner you start, the less risk of fine, regulatory hassle and reputational risk.

For an analysis of your business's automatic enrolment options, please talk to us...now.

Past performance is not a reliable guide to the future. The value of investments and the income from them can go down as well as up. The value of tax reliefs depend upon individual circumstances and tax rules may change. The FCA does not regulate tax advice. This newsletter is provided strictly for general consideration only and is based on our understanding of law and HM Revenue & Customs practice as at February 2015 and the contents of the 2014 Autumn Statement and Finance Bill 2015 draft clauses. No action must be taken or refrained from based on its contents alone. Accordingly no responsibility can be assumed for any loss occasioned in connection with the content hereof and any such action or inaction. Professional advice is necessary for every case.