Kymin
Financial Planners

FACTSHEET

2016/17 Year End Planning

Keeping your taxes as low as possible – what you may wish to consider sooner rather than later

The 2016/17 year end for tax planning purposes is now only a matter of months away, with the deadline approaching on 5 April. Effective tax planning is about knowing the personal and business taxes you are liable to pay and acting to legally minimise them. It is also about maximising your net income and creating opportunities to invest and save tax-efficiently for the current and future needs of your business, your family and yourself.

While there is no doubt that the tax system is complex, you should not let complexity deter you from a simple goal: keeping your taxes as low as possible. We have provided some of the key areas you may wish to consider, if applicable to your particular situation.

PERSONAL ALLOWANCE

Aim to ensure each spouse uses their full Personal Allowance for Income Tax purposes where possible. Annual income of less than currently £11,000 is not liable to tax. Spouses and registered civil partners should consider the possible transfer of income-producing assets to ensure that Personal Allowances are not wasted.

PERSONAL ALLOWANCE FOR HIGH EARNERS

Your Personal Allowance goes down by £1 for every £2 that your adjusted net income is above £100,000. This means your allowance is zero if your income is £122,000 or above. If appropriate to your particular situation, making charitable donations that qualify for Gift Aid could reduce total income. In addition, annual gross personal pension contributions may be deducted from total annual-earned income for the calculation of adjusted income, and certain other investment structures may qualify for significant tax rebates which could be used to offset the reduction. Also, moving investments that generate income from taxed to tax-efficient environments could also reduce an individual's 'net adjusted annual income'.

SPOUSE REMUNERATION

If a self-employed person or family company employs a spouse to assist in the running of the business, the spouse could be remunerated fairly to utilise the tax-free Personal Allowance. It is possible to set the earnings at a level whereby no tax or National Insurance Contributions will be due but entitlement to State Retirement Pension and other benefits is protected. Obtaining professional advice from a qualified accountant is important prior to taking any action due to the 'wholly and exclusively' rule.

MINOR CHILDREN AND TEENAGERS

Minor children are entitled to Personal Allowances. There are restrictions on the amount of income that a child can derive from a parent, but gifts from other relatives can be considered. Junior Individual Savings Accounts (JISAs) can be funded by parents. Teenaged children can be employed in family businesses providing legal restrictions, and national minimum wage issues are taken into account. Obtaining professional advice from a qualified accountant is important prior to taking any action due to the 'wholly and exclusively' rule.

INDIVIDUALS WITH NO TAXABLE INCOME

Pension contributions of up to £3,600 gross per year can be made by individuals with no taxable income. The net contribution after tax relief contributed at source by the UK Government would be just £2,880.

TAX-RELIEVABLE PENSION CONTRIBUTIONS

The Annual Allowance for making tax-relievable pension contributions is £40,000, so consideration should be made to utilising the full Annual Allowance for 2016/17 by 5 April 2017. 'Tax-relievable pension contributions' relates to personal contributions and the availability of the Annual Allowance, and any carry forward relief is subject to 100% Net Relevant Earnings (NRE). It is possible to carry forward unused Annual Allowances from the previous three tax years, so it may be possible to receive tax relief in the current tax year on contributions in excess of £40,000 with a little planning.

TAX-RELIEVABLE PENSION FOR HIGH EARNERS

For high earners, the Annual Allowance definition is more complicated, but those with an annual 'adjusted income' of more than £150,000 will be reduced to as little as £10,000 for 2016/17. There are two triggers for a reduction in the annual allowance, both of which must apply for the allowance to be reduced. The first is that the individual's adjusted income for the year is more than £150,000. The second is that the individual's `threshold income' for the year is more than £150,000 less the standard annual allowance for the year. Thus the threshold income limit is £110,000 for 2016/17 (£150,000 less the standard annual allowance of £40,000).

Essentially, 'adjusted income' is all income including pension contributions (both individual and employer contributions), whereas threshold income excludes pension contributions.

Where the individual has both adjusted income of more than £150,000 and threshold income of more than £110,000 for 2016/17, the annual allowance of £40,000 is reduced by £1 for every £2 by which adjusted income exceeds £150,000. The maximum reduction is £30,000,