Individuals

INCOME SHIFTING

Married couples should consider transferring income generating assets to their spouse in order to fully utilise their respective tax free personal allowances. This is also effective where one party pays income tax at the higher rate or additional rate and the other is a non taxpayer or basic rate taxpayer.

Married couples should review the ownership of income producing assets such as portfolio investments, rental property, bank accounts or private company shares and seek advice on how ownership can be varied so income can be shared for tax efficiency

ADDITIONAL RATE OF INCOME TAX

Personal pension contributions and gift aid donations can reduce the amount of income tax high earners pay at the additional rate of 45%.

PERSONAL ALLOWANCE

Individuals with a statutory total income in excess of £100,000 could make personal pension contributions to preserve their personal allowance. Salary sacrifices in exchange for tax efficient company benefits are also effective for these purposes and should be considered as part of your tax planning strategy.

MARRIAGE ALLOWANCE TRANSFER

How it works

Marriage Allowance lets you transfer £1,260 of your Personal Allowance to your husband, wife or civil partner.

This reduces their tax by up to £252 in the tax year (6 April to 5 April the next year).

To benefit as a couple, you (as the lower earner) must normally have an income below your Personal Allowance - this is usually £12,570

Who can apply

You can benefit from Marriage Allowance if all the following apply:

- you're married or in a civil partnership
- you do not pay Income Tax or your income is below your Personal Allowance (usually £12,570)
- your partner pays Income Tax at the basic rate, which usually means their income is between £12,501 and £50,270 before they receive Marriage Allowance

You cannot claim Marriage Allowance if you're living together but you're not married or in a civil partnership.

EXEMPT TRANSFERS FOR INHERITANCE TAX (IHT) PURPOSES

With the nil rate band having been frozen in recent years, gifting during an individual's lifetime has become increasingly important. The typical exempt transfers for IHT purposes include (1) the annual transfer of £3,000, (2) small gifts of up to £250, (3) gifts in consideration of marriage and (4) normal expenditure out of income.

TAX EFFICIENT INVESTMENTS

Investors can reduce their annual income tax bills by making investments through Venture Capital Trusts, Enterprise Investment Schemes and Seed Enterprise Investment Schemes. Capital gains tax deferral relief/exemption may also apply.

MAIN RESIDENCE ELECTION

Where two or more properties are occupied concurrently as a home, the taxpayer should 'elect' which property is to be treated as the main residence in order to mitigate any potential capital gains tax charge in the future.

JOINTLY OWNED PROPERTY FOR MARRIED COUPLES

An election on 'Form 17' can be a useful tax planning tool. Such a declaration enables a married couple to be assessed on the income arising from jointly held property in accordance with their actual beneficial interest, as opposed to having the income taxed upon them equally.

DEEDS OF VARIATION

Such a variation to a deceased's estate could be an important tool to both the estate itself and beneficiaries for inheritance tax purposes. However these should not be relied upon and should be considered as a reserve as opposed to a substitute for appropriate tax planning. There is a two year time limit for varying a deceased's estate.

CAPITAL GAINS/LOSSES

Transfers of chargeable assets between married couples are exempt from capital gains tax (CGT). Taxpayers sitting on a potential capital gain should consider transferring the asset in question to their spouse, where the spouse has unrelieved capital losses brought forward or where capital losses can be crystallised. Transferring assets into joint names can also ensure that both spouses' respective annual CGT exemptions are fully utilised on a future disposal.

INHERITANCE TAX PLANNING (IHT)

IHT planning can significantly reduce the value of assets passed to the next generation. It is never too early to make an IHT plan and individuals are caught out far too often because IHT planning is not considered early enough. Taking early action and having a plan for the distribution of assets or maximising the generous reliefs could mean IHT is mitigated and the next generation can benefit from the full value of the estate passed over. Generally, those who are retired with wealth in excess of the nil rate band of £325,000 (or double nil rate band for couples) should put in place a plan to deal with IHT.

UK TAX RESIDENCE

The statutory residence test came into force with effect from 6 April 2013. Without a thorough understanding of what the test means, there is a danger that some of the rules can be easily misinterpreted or overlooked. This can have devastating results if an individual who thinks they are non-UK tax resident turns out at the end of the year to have been a UK resident. It is therefore potentially taxable on their worldwide income. Those who are in any way uncertain of their residence status under the new rules should not wait until the end of the tax year before seeking advice. Also, individuals should not simply rely on being in the UK for fewer than 90 days a year. In some cases, spending as few as 16 days in the UK can lead to a UK tax resident status.

GIFT AID DONATIONS

Gift Aid remains a valuable tax relief on unlimited amounts donated to qualifying charities at the donor's marginal rate of tax. For those who make charitable donations it is of benefit both individually and to the charity to ensure that tax relief is maximised. This may mean the donor making contributions to a holding account or charitable trust for years when their tax rate is high. Even an election can be made to carry back donations to the previous year, if the carry back rules are met so that relief can be made to minimise tax exposure.

HIGH INCOME CHILD BENEFIT CHARGE

When one parent's income reaches £50,000 child benefit is clawed back at the rate of 1% for every £100 over 50,000 so that 100% of the child benefit is repaid when income reaches £60,000. However, making pension contributions or gift aided charity donations effectively extends the £50,000 by the amount of donation or pension contribution so the claw back starts from that higher amount instead.

TAX CREDITS

A protective claim for tax credits should be considered, particularly for self-employed individuals with fluctuating profits. This is even more evident given the current economic climate. Claims for tax credits can only be backdated by one month and need to be made on an annual basis.