Year-end Planning Considerations

In advance of 6 April 2016, it is worth taking a moment to consider whether there is any action you should take before the end of the current tax year and taking advice if required, particularly in light of a number of changes which will come into effect from April 2016.

Tapered Annual Allowance for Individuals with Income in Excess of £150,000 and Reduction of Lifetime Allowance

As part of the Summer Budget 2015, the Government announced the introduction of a tapered annual allowance for pension contributions which is due to come into effect from 6 April 2016.
This will impact individuals with income in excess of £150,000 before any pension contributions (including employer contributions) who will have their annual allowance reduced by £1 for every £2 of income in excess of £150,000, to leave a minimum allowance of £10,000.

The alignment of pension input periods with the UK tax year may impact the annual allowance available for 2015/16 and individuals may wish to take advice to ensure that this is fully utilised.

From April 2016, the lifetime allowance will also reduce to £1 million. If your pension savings are at or close to this level and you have not already done so, you may wish to consider whether it would be beneficial to make an election for individual or fixed protection in respect of your pension funds.

Changes in the Taxation of Dividend Income

As it stands, UK dividends are paid net of a 10% tax credit which can be set against the UK tax liability. From 6 April 2016, this will no longer be available. Instead the first £5,000 of dividend income will be taxed at 0%. The rates of tax on dividend income will also change.
Individuals who receive UK dividends may wish to ensure that they are fully utilising their ISA allowance each year. Those who receive significant dividends from their company may wish to review whether this will remain the preferred way in which to draw funds.

Employers who offer share awards as part of a remuneration package may wish to ensure that affected employees have received advice and understand the implications of these changes.

Buy to Let Changes for Landlords

At present rental profits are calculated net of a deduction for allowable expenditure including mortgage interest with taxpayers receiving relief at their marginal rates. Going forward, this is to be subject to a gradual reduction, restricting relief to 20% for all taxpayers by April 2020.

Landlords of furnished properties have also been able to take a ‘wear and tear’ deduction in calculating taxable rental profit. However, from April 2016 landlords may only deduct the cost of replacement furnishings.

Higher or additional rate taxpayers should expect to see a gradual increase in the tax liability arising on rental profits.

Potential buy to let investors will also face a 3% increase in Stamp Duty Land Tax on purchases of buy to let investment properties (or second homes) in excess of £40,000 from April 2016.

Extension of Annual Tax on Enveloped Dwellings ('ATED')

From 1 April 2016, a new band will be introduced for the ATED charge with properties valued between £500,000 and £1 million coming within the scope of the ATED charge for the first time. The annual charge for properties falling within this band will be £3,500 and a return for the period 1 April 2016 to 31 March 2017 will be due by 30 April 2016.
HMRC may apply penalties for failure to file an ATED return and pay the ATED charge by the deadline so it is important that valuations are obtained promptly to allow sufficient time to file the return, which includes reporting of the property's value as at 1 April 2012 (or at acquisition if later).

Foreign Losses

Individuals who have made a foreign loss election may have losses available to offset UK or foreign gains, potentially enabling sales proceeds to be remitted to the UK without any UK tax implications.

Individuals may wish to review their available losses, particularly where they may be considering a disposal of assets standing at a gain, or where proceeds of a foreign disposal may be needed to fund UK living expenses.

Overseas Workday Relief and Qualifying Accounts

Remittances from a qualifying account are subject to the special mixed fund rules, meaning that transactions can be aggregated on an annual basis, with remittances treated as made from current year income in priority to prior year income. As a result, taxed UK employment income for prior years may become 'trapped' by current year income.

Individuals may wish to consider remitting UK taxed income to ensure that this is available for use in the UK, or opening a new qualifying account to receive current year employment income.

If opening a new account, there are a number of criteria to ensure the account is a 'qualifying account' benefitting from the special mixed fund rules. If remitting the UK taxed portion of your employment income, it would be advisable to review the balance to ensure that there is no inadvertent remittance of income on which overseas workday relief has been claimed.

[i] https://www.gov.uk/government/publications/pensions-tapered-annual-allowance/pensions-tapered-annual-allowance

[ii] https://www.gov.uk/government/publications/income-tax-changes-to-dividend-taxation/income-tax-changes-to-dividend-taxation

https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/483621/Draft_clause_2.pdf

https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/483625/Draft_clause_3.pdf

[iii] https://www.gov.uk/government/publications/reform-of-the-wear-and-tear-allowance/reform-of-the-wear-and-tear-allowance

[iv] https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/385302/RELEVANT_HIGH_VALUE_DISPOSALS_GAINS_AND_LOSSES.pdf