WEALTH MANAGEMENT ALERT

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A practical end of year tax-planning check list for your clients

With the end of the tax year fast approaching, here is a simple, practical check list that could help your clients reduce their tax bills for the 2017/18 tax year – plus a couple of less simple strategies.

Sometimes it is the easy things that get overlooked. Here are a few simple ways of ensuring that your clients don't pay more tax than they need to. Clearly, to be effective for the current tax year, they need to take action before 6 April.

Reducing taxable income

This is particularly important for people with income of £50,000 - £60,000 and who could lose child benefit, or with income of more than £100,000 who could find that they start losing their personal allowance.

- Are they on the right tax code? It is surprising how often employers or HMRC get it wrong.
- Have they included charitable donations on their tax return and reclaimed higher rate tax on gift aid donations?
- Could they contribute more to their pension without going over their annual contribution and lifetime allowance limits?
- Might it make sense to transfer income-producing assets to a spouse or partner who may otherwise not use their personal allowance?
- Clients with a high income and have and money to spare, or who have made capital gains, could consider investing in VCTs, (see box on next page).

Use or lose annual allowances

Using annual allowances each year can help client shelter as much money as possible from tax in the future.

- Have clients and their families made the most of their ISA allowances? The annual subscription limit increased to £20,000 for the 2017/18 tax year.

- Clients wanting to help their children financially could consider taking out a Lifetime ISA (LISA). UK adults aged between 18 and 40 can save up to £4,000 a year (2017/18) and receive a 25% bonus from the government.

  They could also pay money into spouses' or children's pensions. Tighter annual allowances plus lifetime allowance restrictions are making this an attractive option for some. The person contributing doesn't get any tax relief but the person receiving the contribution receives tax relief of up 100% of their relevant UK earnings or £3,600, whichever is higher.

- Clients who have made capital gains that exceed their annual allowance, for instance on investments that are not sheltered from tax, or from the sale of an investment property, may want to invest the gain into an Enterprise Investment Scheme or Seed EISs (See box on next page).

- Clients may be interested in making IHT-exempt gifts, such as the annual £3,000 allowance, the various small gift allowances and regular gifts out of normal income.

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Are clients struggling to find suitable mortgages?

Finding the right form of finance for purchases and projects, whether for a main residence or other property, businesses or major purchases such as a yacht can be time-consuming and surprisingly difficult, even for people who are relatively affluent.

Lighthouse Mortgage and Protection Solutions, Lighthouse Group's specialist mortgage division, may be able to help. As independent mortgage advisers, they have close relationships with lenders who specialise in lending larger amounts to high earners, giving them access to mortgages and other sources of funding not readily available from traditional high street banks. They use their detailed understanding of the constantly evolving mortgage market to find the most appropriate mortgage for clients' individual needs.

They also guide clients through the application process, including helping to gather the detailed information and documents that evidence the wealth, income and expenditure that lenders now require.

Tax-efficient strategies for high earners prepared to take more risk

Defer paying capital gains tax
By reinvesting a capital gain in an Enterprise Investment Scheme (EIS) clients can, subject to certain conditions, defer paying the CGT for as long as they hold the EIS investment. Any additional growth is free of tax and once they have held the investment for two years it falls outside their estate for IHT purposes. In additional they receive upfront income tax relief of 30%, subject to certain conditions. Loss relief is available if the investment falls in value, which they can offset against income or capital gains.

Seed EISs operate in a similar way, but invest in companies that are generally smaller and younger than EISs. Investors receive income tax relief of 50%.

Investments that attract 30% income tax relief
Clients who want to make additional investments, over and above their core portfolio and pension holding, and would like to help smaller UK companies grow, could consider Venture Capital Trusts (VCTs). They receive 30% income tax relief upfront, subject to certain conditions, there is no income tax to pay on any dividends, nor any capital gains tax to pay on any gains they make when they sell the investment.

Spread the risk and choose carefully
EISs and VCTs are higher risk investments, mainly because they invest in smaller, often younger companies and their shares can be illiquid.

It is possible to invest directly into a single company, but most people prefer to invest via a specialist fund manager who spreads investors' money across a number of qualifying companies, with the aim of diluting the risk. As with most investments, there can be a surprising difference between the best and worst performing funds. Unlike mainstream investments, there is not a relatively stable 'universe' of funds from which to choose, as many are only open for a limited period, or until they are fully subscribed.

Essential to take independent advice from specialists
As independent financial advisers to high net worth individuals, we are experienced in conducting thorough research and due diligence in order to identify specialist funds that we consider to be suitable for such investments.

Tax and buy-to-lets: possible action to take
Will any of your clients be affected by the changes to the way costs, including mortgage interest, can be offset against rental income. Even though the changes are being phased, clients who have been able to offset large amounts of mortgage interest are likely to be hardest hit, and notice the difference in the current tax year. We can advise clients how to structure their property portfolio in a way that is both efficient and tax-effective.

One solution is to try to reduce the mortgage repayments, for instance by finding a more competitive mortgage, whether secured against the rental property or against their main residence or other property they own. Another solution is to plan to pay off as much of the mortgage as possible over the next three years. In both instances, they should take independent financial advice to ensure that they make cost-efficient decisions.

Clients who have separated
Clients who have separated from their spouse during the current tax year may want to transfer assets before 6 April 2018. Why? Because no capital gains tax is payable on assets that pass between spouses during the tax year in which they separate.

Lifetime pension allowance and individual protection
The lifetime pension allowance is about to increase, which is welcome news for most people. The increase to £1.03m from April 2018, the first in eight years, will allow clients to take up to £7,500 more tax-free cash and, if they are over the current limit, save up to £16,500 in lifetime allowance tax.

However, people who have already protected their lifetime allowance are unlikely to benefit for a number of years. Anyone with Individual Protection (IP) or Fixed Protection (FP) won't benefit until the standard LTA rises to an amount higher than the amount that they have protected.

Clients within five to ten years of retiring and whose total pension funds likely to be over £1.03m by the time they retire, you should find out whether they should take out individual protection (IP16).

As ever, there are pros and cons to these suggestions and it is important that clients understand the full implications of what they are considering and to take independent financial advice before acting.

We are experienced in helping individuals and families optimise the amount of tax they pay, now and with a view to the future. We would be happy to work with you in the way that suits you best.
To refer clients to us or to discuss how we could work together, email Phil Mason, Business Development Director, LighthouseCarrwood Ltd, to discuss how we could work with you or your clients.
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