ATT Welcome, May 2016

Welcomes

01 May 2016

Goodbye 2015/16, hello 2016/17

In the tax world, the end of the tax year has a bit of a feeling like New Year's Eve and New Year's Day, the manic build up and then a period to stop and reflect on the past year. As I write this article the tax year has just ended and I am looking back at such a manic period.

Talking to my colleagues on ATT Council, as a rough estimate about half of us are involved in some kind of end of tax year planning.

The run up to the end of the tax year is also quite a busy time for ATT events and meetings so it is quite a challenging time for volunteers to plan and manage their time and achieve all the important tax year driven deadlines.

Most of my corporate clients are very organised and their decision to take dividend distributions before the proposed rise in dividend taxation (that is not as straight forward as we were all led to believe) was a reasonably painless exercise but many of my colleagues at ATT were not so lucky and were dashing around trying to get their clients' affairs in to some kind of orderly fashion to help them make the use of a lower taxation regime, right up to the last few days of the tax year.

My stress levels were increased this year due to, mainly, last minute pension planning. I can classify my time spent on end of year pension planning into two specific categories:

1. clients wishing to mitigate the impact of the effective 60 per cent tax rate when income exceeds £100,000 per annum; and
2. clients wishing to avoid losing the £50,000 pension contribution allowance for 2012/13.

Looking at the first category, clients whose income in the tax year would exceed £100,000 (but for 2015/16 was less than £121,200, 2016/17 £122,000), will suffer an effective rate of tax of 60 per cent on the band of income that falls between £100,000 and £121,200. This effective tax rate is because the client will lose £1 of their personal allowance for every £2 of income until the personal allowance is extinguished. A gross personal pension contributions made by the client is deducible when calculating the adjusted net income, so, for example, if the client's income is £110,000, their personal allowance will reduce by £5000. A personal pension contribution of £10,000 would mean this client would not lose any of the personal allowance because the full £10,000 personal pension contribution is deducted from the net adjustable income, saving tax at an effective tax rate of 60 per cent. The client in this example would make a net contribution of £8,000 and then reclaim their higher rate tax relief through the usual way and would preserve their full personal allowance.

In the second category, I also helped a number of clients with some last minute planning to utilise their £50,000 pension contribution allowance from 2012/13. From 6th April 2016 there is now only one of the £50,000 pension contribution allowances left. I think with the way the Government is trying to restrict pension allowances for the higher paid it is unlikely we will see pension contribution allowances this generous again. The only £50,000 pension contribution allowance available now relates to the tax year 2013/14. To be able to utilise this allowance you need to have paid the full pension contribution allowance for the current tax year so this type of planning is probably only for the wealthier of our clients. The main challenge is obtaining a full history of a client's pension contributions, if they are a new client. Pension product providers do not all work to the same time pressure that the end of tax year creates for us all. Once you have utilised a client's pension contribution allowance for the current tax year you can look to utilise the carry forward of unused allowances (you can look back three tax years) which means you look back to the oldest allowance first. The issues you need to be aware of is that to use the carry forward rules you need to have an existing pension plan already in place and have paid the current year's full pension allowance, if your client is paying personally they must have relevant UK earnings equal to or greater than the contribution made. There is not the same restriction on company contributions companies can pay a lot more, the tax relief would be subject to the 'wholly and exclusively' rules.

I actually quite enjoy the increased workload that the end of the tax year creates and as I said at the start, it then creates a feeling of peace once the clock strikes midnight and we can all relax and hopefully look back at a job well done for our clients.