Introduction

The ideal tax system would be simple to use, for both the government and the public. The principle is that the government levies taxes to pay for public services such as health care, education and security, and responsible citizens are happy to pay their fair share.

Credit: iStock / takasuu

However, the government also uses the tax system to direct people and businesses into certain forms of behaviour, such as saving for retirement. This is how the tax system becomes complex, as certain behaviours are rewarded by tax reliefs but other actions (or lack of action) are punished by tax penalties or higher tax rates.

This brief guide highlights 50 ways in which you can use certain tax reliefs to your advantage, and how to avoid some of the tax penalties. You will find practical tips to help with your personal tax planning, property transactions, planning for retirement and savings and investment.

These tips will help you navigate the complexity of the tax rules, and help you make tax-efficient plans. You may find that not every tip will be suitable for you or your business, but they will help you plan your financial circumstances to fit squarely with what the government envisages for tax reliefs.

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£ Tip

If a property has been your nominated main home at any time, the gain for the last 18 months of ownership is free of tax.

Personal and family planning

1 Can you use the transferrable amount of the personal allowance? Married couples and civil partners can share some of their personal allowance between them. The unused allowance of one partner can be used by the other, meaning an overall tax saving for the couple. The amount you can transfer is capped at £1,190 for 2018/19 and a transfer is not permitted if either partner pays tax at a rate higher than the basic rate of 20%.

2 Contribute up to £4,260 into your child's Junior ISA. The fund builds up free of tax on investment income and capital gains until the child reaches 18, when the funds can either be withdrawn or rolled into an adult tax-free ISA. Relatives and friends can also contribute to the child's Junior ISA, as long as the £4,260 limit for the year is not breached. Any child aged under 18 who lives in the UK can have a Junior ISA if they were not entitled to a child trust fund (CTF) account, although a CTF can be switched to a Junior ISA.

3 Make sure you tell HMRC which of your properties should be treated as your main home for tax purposes when you buy a second (or even third) home. The property that has always been your main home is free of capital gains tax (CGT). Any other property where you have lived for part of the time will attract a CGT exemption for the periods you have lived there and have elected for it to be your main home. If a property has been your nominated main home at any time, the gain for the last 18 months of ownership (36 months if moving into residential care) is free of tax, even if you do not live there during that final period. The same does not necessarily apply where an overseas property is involved.

4 Check how much you are paying in national insurance contributions (NICs). If you have more than one job, you may overpay NICs during the tax year. You can reclaim any overpaid NICs from HMRC after the end of the tax year. However, you can prevent the overpayment occurring in the first place by deferring payment of NICs on one of your jobs by sending HMRC a completed form CA72A (either online or by post).

5 If you are getting married or entering into a civil partnership, and both own properties, you need to nominate one of them as your main home within two years of your marriage/civil partnership. Once married, you can have only one main home between you for tax purposes. If you both own separate properties which you continue to occupy for some periods nominate the one that is likely to make the best use of your CGT property

£ Tip

Check your PAYE tax code and ask HMRC to correct any errors.

exemption, otherwise HMRC will designate the property that you occupy for the majority of your time as your main residence.

6 If you own a trading company, you can reduce the CGT payable on a future sale by spreading the shares between yourself and your spouse. If you both hold at least 5% of the ordinary share capital for at least the 12 months before the sale, and are a director or company secretary for the company or employed by it, you should both qualify for entrepreneurs' relief on any gains made when the company is sold. This relief applies a reduced rate of CGT of 10% to the first £10 million of gains made during each person's lifetime.

7 If your income is more than £60,000, and you or your partner receive child benefit, you will be subject to a tax charge to claw back the full amount of benefit. If your income lies between £50,000 and £60,000, the child benefit tax charge will be equivalent to 1% of the child benefit for every £100 of income over £50,000. The tax charge applies to the higher earner, whoever receives the benefit. To avoid the tax charge, you can either elect to stop receiving the benefit if your income is expected to be over £60,000 (while maintaining your entitlement), or reduce your income below £50,000.

8 Check your PAYE tax code. Many PAYE tax codes are incorrect when issued. HMRC may have included an estimate of your savings or investment income, based on the amounts received in an earlier year. Including this income in your code means you will pay tax on it earlier than if it was assessed through your self-assessment tax return. You can ask HMRC to remove this estimated income, and correct any other errors, through your online personal tax account.

9 If your marriage is permanently breaking up, aim to divide up the valuable assets, such as shares and land, as soon as possible. If you complete any such asset swaps in the tax year in which you separate from your spouse, you will not have to pay CGT based on the market value of those items. If you delay until the next tax year, the tax charge could be painful. (See also Tip 12.)

Your property – making the most of bricks and mortar

10 If you let residential property, take action to lessen the impact of the restriction on tax relief for finance costs. The restriction is being phased in over four years to 2020. For the current tax year, only 50% of finance costs including mortgage interest are deductible, and a 20% tax credit is given in their place. From 2020/21, all tax relief on finance costs will be replaced by the 20% tax credit. The

Tip

The 'Help to Buy ISA' provides first time home buyers with a maximum government bonus of £3,000 for those who save £12,000.

restriction can be avoided by using a limited company for new buy-to-lets, or transferring your existing property business into a company. You could consider selling some properties to pay some or all of the borrowing on the ones retained, or replacing residential properties with commercial let properties. However, be warned before taking such steps – other taxes such as CGT and land transaction charges need to be considered.

11 **Plan ahead for a first property.** The Lifetime ISA (LISA) and the Help to Buy ISA both provide first-time homebuyers with a government bonus of 25% on their savings. The LISA has the advantage of a higher investment limit – £4,000 a year compared to maximum Help to Buy ISA savings of £12,000 (these limits apply to each person, not per couple). Unlike the Help to Buy ISA, the LISA can contain a mixture of cash and stocks and shares. The LISA is also more flexible as the savings can be withdrawn from age 60 onwards, if not used to buy a home before that. If you already have a Help to Buy ISA, then you can transfer the savings to a LISA.

12 **Beware of the additional 3% of land transaction duties which can apply to residential property purchases.** An additional 3% is payable where a second or subsequent home is purchased for £40,000 or more. The 3% is added to the relevant duty: stamp duty land tax in England and Northern Ireland; land transaction tax in Wales; and land and buildings transaction tax in Scotland. The total charges vary by country. If you are replacing your main residence, and sell your old home within 36 months (18 months in Scotland), you can reclaim any extra duty paid. You can get caught by this extra charge if you buy a property following an informal separation from your spouse or civil partner.

13 **Let rooms in your own home to one or more lodgers.** Rent-a-room relief allows up to £7,500 income per property tax-free from letting rooms as residential accommodation in a home you also occupy. No expenses can be claimed. If the gross rent is higher than £7,500, check whether the normal approach of paying tax on the income after deducting allowable expenses is more tax-efficient.

14 **If you run a commercial holiday lettings business check that each property is available for letting for at least 210 days a year, and aim to let each property on short-term holiday lets for at least 105 days a year.** If these conditions are not met, your holiday lettings business may lose a number of tax reliefs. Where you let a number of holiday properties, you can average the number of days of actual letting across all your UK properties, or across properties let in other European Economic Area (EEA) countries. There is also a grace period election that can be used for up to two tax years in which the occupancy tests are not met for individual properties.

£ **Tip**

Make gifts totalling £3,000 each tax year from your capital resources.

Estate planning – handing on your wealth

15 **Make sure you can benefit from the residence nil rate band.** This addition to the nil rate band is worth up to £125,000 in 2018/19, rising to £175,000 in 2020/21. It is only available where your home is inherited by your direct descendants on your death, or where the property passes to certain types of trust. You may have to rewrite your will so that the residence nil rate band is available. It might be beneficial to repay mortgages secured against your home in order to maximise the relief. The relief is restricted if your estate is worth over £2 million on your death, so it's worth making some lifetime gifts to reduce the value of your estate below this threshold.

16 **Check whether your elderly relatives have ever been widowed.** Widows and widowers inherit the unused proportion of their late spouse's or civil partner's nil rate band – even if they died many years ago. This could mean that up to an extra £325,000 of the estate will be tax free. The residence nil rate band (see Tip 15) is also inheritable, regardless of when the first spouse died.

17 **Make a will and review it regularly.** If you die without making a will, your assets will be divided between your relatives according to the intestacy rules. This will be after inheritance tax (IHT) is paid at 40% on any value above £325,000 (and possibly a further £125,000 if the residence nil rate band is available) that goes to anyone other than your spouse or civil partner. If you have no surviving relatives, the whole of your estate will go to the Crown (i.e. the government).

18 **Get married, rather than just living together as a couple.** If you are not married or in a civil partnership, your surviving partner will have to pay IHT on anything inherited from you that exceeds the nil rate band (currently £325,000). UK-domiciled spouses and civil partners normally inherit everything tax free from their deceased spouse. Your surviving spouse or civil partner will also inherit your unused nil rate band and residence nil rate band (currently worth up to £450,000 in total), which will save further tax on their own death.

Credit: iStock / Rawpixel

19 **Rewrite your will to ensure that at least 10% of your net estate, after deduction of the nil rate band of £325,000, is left to charity.** This will reduce the IHT rate on your taxable estate from 40% to 36%. The exact calculation of your net estate is quite complicated, so take professional advice when drawing up or amending your will.

£ Tip

Ensure your ISA balance passes to your spouse or civil partner.

20 **Make regular gifts out of your annual income to whomever you choose.** As long as you establish a pattern of gifts that can be shown to be covered by your net income, without reducing either your capital assets or your normal standard of living, these gifts will be free of IHT. The recipients of the gifts need not be the same people each year.

21 **Use the IHT marriage exemption for gifts.** If your son or daughter is about to marry, you and your spouse can each give them £5,000 in consideration of the marriage, and the gift will be free of IHT. This is in addition to any smaller gifts you make out of your regular income each year (see Tip 20). The marriage exemption can also be combined with your £3,000 a year exemption (see Tip 23) to allow you to make bigger exempt gifts. You can also make an IHT-free gift of £2,500 for a grandchild's wedding. Civil partnerships attract the same exemptions.

22 **Invest in business assets to save IHT.** Any shares you own in unquoted trading companies, including companies listed on the AIM stock exchange, are free of IHT once you have held them for two years. You do not need to be involved in the company for the shares to qualify. Any interest you hold in an unincorporated business will generally also be free of IHT.

23 **Make gifts totalling £3,000 each tax year from your capital resources.** These gifts are free of IHT and, if you forget to make your £3,000 gift one year, you can catch up in the next tax year by giving a total of £6,000. Remember, you and your spouse or civil partner can each give £3,000 every tax year in addition to gifts you make out of your regular income.

Retirement planning – preparing for the future

24 **Take advantage of tax relief at your highest tax rate on pension contributions, up to the limit set by your annual allowance.** The annual allowance for 2018/19 is £40,000, but you can bring forward unused allowances from the previous three tax years (see Tip 25). The annual allowance must cover pension contributions you make yourself, and those paid into your pension scheme by your employer. Your annual allowance is restricted to £4,000 if you have already drawn more than the tax-free amount from a money purchase pension scheme. Also, the allowance is tapered down to a minimum of £10,000 if your annual income exceeds £150,000. Contributions made in excess of your annual allowance will attract a tax charge at your marginal tax rate. Always take independent financial advice before making a significant investment.

Credit: iStock / AleksanderNakic

£ Tip

You can carry forward unused allowances from the three previous tax years, and use these to cover pension contributions greater than the current year's annual allowance.

25 Take advantage of your unused annual pension allowances from earlier years. You can bring forward unused allowances of up to £40,000 from each of the three previous tax years, to boost your allowance for the current year. This allows you to pay pension contributions over the current year's annual allowance – in theory up to £160,000 – and still enjoy full tax relief on those contributions at your marginal tax rate, subject to any restriction for high income (see Tip 24). The calculations can be complex, so it is best to undertake pension planning well before the end of the tax year.

26 Ask your employer to pay pension contributions to save NICs. If you pay pension contributions out of your salary, both you and your employer have to pay NICs on that salary. When your employer pays a contribution directly into your pension scheme, the employer receives tax relief for the contribution and there are no NICs to pay – a saving for both you and your employer. You could arrange with your employer to cover the cost of the contributions by foregoing part of your salary or bonus. You must agree in writing to adjust your salary before the revised pension contributions are paid for this arrangement to be tax-effective, although pension contributions are not caught by the clampdown on salary sacrifice arrangements (see Tip 38).

27 Arrange for your company to buy your shares to solve your business succession problem. On retirement, you may want your younger colleagues to make you an offer for your shares, but they may not have the cash resources to do so. A solution is for the company itself to buy your shares and then cancel them, leaving the remaining shareholders controlling the company. You end up with cash and, provided certain conditions are met, up to £10 million of the gain should qualify for entrepreneurs' relief and be taxed at no more than 10%.

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Savings and investment

28 Make the best use of tax-free savings and dividend allowances. For 2018/19, savings income of up to £1,000 is exempt for basic rate taxpayers, with a £500 exemption for higher rate taxpayers. The tax-free dividend allowance is £2,000 for all taxpayers. Married couples and civil partners can save tax by ensuring that each person has enough of the right type of income to make use of these tax-free allowances.

£ Tip

Invest in a small trading company under the Seed Enterprise Investment Scheme (SEIS) and gain a 50% income tax credit on an investment of up to £100,000.

29 **Take advantage of the individual savings account (ISA) investment limit and generate tax-free income and capital gains.** The maximum annual amount that can be invested in ISAs is £20,000 (2018/19). You can put the whole amount into a cash ISA, a stocks and shares ISA, an Innovative Finance ISA, or any combination of the three as desired. Transferring funds into an ISA early in the tax year will maximise the amount of tax-free income arising. The introduction of the tax-free savings and dividend allowances has made ISAs redundant for many small savers, but ISAs can still offer tax advantages. For example, additional rate taxpayers can benefit from holding a cash or Innovative Finance ISA, and stocks and shares ISAs can be worthwhile where gains are made in excess of the capital gains exempt amount (see Tip 30). Also the LISA and Help to Buy ISA have the advantage of a government top-up (see Tip 11).

30 **Plan your capital gains to make best use of any capital losses.** If you realise capital gains and losses in the same tax year, the losses are offset against the gains *before* the capital gains exempt amount (£11,700 in 2018/19) is deducted. So losses will be wasted if gains would otherwise be covered by your exempt amount. Consider postponing a sale which will generate a loss until the following tax year, or alternatively realising more gains in the current year.

31 **Gain a 50% income tax credit on an investment of up to £100,000 by investing through the Seed Enterprise Investment Scheme (SEIS).** Your capital gains from other assets which are reinvested in SEIS shares can also qualify for a 50% tax reduction, and capital gains on SEIS shares are exempt from tax if the shares are held for at least three years. Note that the income tax credit is clawed back if the shares are held for less than three years. If the gain would have been taxed at 28%, the overall tax relief is 64% (50% plus half of 28%). However, investing in small companies can be very risky, so take independent financial advice.

32 **Obtain a 30% income tax credit by subscribing for shares in a Venture Capital Trust (VCT) or an Enterprise Investment Scheme (EIS).** In 2018/19, the maximum subscription in VCT shares is £200,000. The shares are also exempt from CGT when they are sold. A subscription in EIS shares costing up to £2 million (investments in excess of £1 million must be made in knowledge-intensive companies) qualifies for the income tax credit. In addition, you can defer tax on your capital gains by reinvesting an unlimited amount of gains in EIS shares. VCT and EIS shares can be risky investments and you must hold VCT shares for at least five years and EIS shares for three years in order to retain your income tax credit.

Your business – making the rules work for you

£ Tip

Purchasing a car in your own name rather than having a company car will generally reduce your tax.

33 **Get your business ready for making tax digital (MTD).** If your business is VAT registered and has an annual turnover of more than £85,000, it will have to comply with the MTD regime from April 2019. This will mean keeping digital records of VAT-related expenses and sales using software, and submitting the VAT return to HMRC via MTD-compliant software. If you keep records using spreadsheets, they must be linked to MTD-complaint software to submit VAT returns. With less than a year to comply, you may want to run MTD software alongside your existing system before making a complete switch. If your turnover is below the £85,000 threshold, you won't have to comply with MTD until at least April 2020, and possibly later.

34 **Choose the most tax-advantageous structure for your new business.** There are tax advantages to operating via a company as the rate of corporation tax is just 19%, compared to income tax rates of up to 46% (for Scottish taxpayers). A company can be used to shelter undrawn profits and make tax-efficient pension contributions (see Tip 26). However, if your new venture is expected to make losses in the early years, you can use those losses more flexibly against your other income if you start the business as sole trader or partnership (see Tip 37). The amount of tax you pay overall will depend on the manner in which you extract funds from your business. Whether the most tax-efficient approach can be used will depend on how much money you need for your personal use, and when you need to extract it.

35 **Tell HMRC about your new business promptly.** Sometimes it is difficult to know exactly when a business starts or when a hobby turns into a business. Selling items through online auctions can be fun, but as soon as you start buying items specifically to sell you are deemed to be trading. You then need to register your business through the GOV.uk website or risk a penalty of up to 100% of the tax due. You may also have to register for VAT, or for the VAT Mini One Stop Shop (MOSS) system if you are selling digital products to customers in other EU countries.

Credit: iStock / TanawatPontchour

36 **Use your own car rather than a company car.** By using your own car for business journeys you can be paid a tax- and NIC-free mileage allowance of 45p per mile up to 10,000 miles, and 25p per mile for any additional miles, per tax year. A tax charge will apply if a company car is made available to you, irrespective of the business miles you drive. You

£ Tip

The first £55 a week paid as childcare vouchers is free of both tax and employers' and employees' NICs.

are taxed on a percentage (13% to 37%) of the original list price of the car, plus the same percentage of £23,400 if you take free fuel for private journeys.

37 **Make the best use of trading losses.** A loss made by a company can be set against profits it made in the previous 12 months, but only after setting the loss against any profits in the same year. Where a sole trader or partner makes a loss, it can be set against their total income for the year of the loss and/or the previous year. Losses made in the first four years of an unincorporated business can be carried back up to three years, starting with the earliest year. However, there is a cap on how much loss can be offset against total income (but not profits of the same trade): the higher of £50,000 and 25% of your income for the year.

Employment and remuneration – looking after your employees

38 **Don't accidently lose the tax advantages of existing salary sacrifice schemes.** Most salary sacrifice schemes have lost their tax advantages, but existing schemes involving accommodation, school fees and cars with CO_2 emissions above 75g per kilometre won't be affected until 6 April 2021, provided the terms of the scheme are not varied. Salary sacrifice involving pension contributions, childcare, low-emission cars (CO_2 emissions not exceeding 75g per kilometre) and health-related benefits (such as cycling to work) continue to benefit from the tax advantages.

Credit: iStock / busracavus

39 **Set up a childcare voucher scheme by 4 October 2018.** Employer-provided childcare vouchers will be replaced by tax-free childcare savings accounts, but new entrants can be accepted into a childcare voucher scheme until 4 October 2018. Employees in voucher schemes on that date can stay as long as they wish, but they can't have a tax-free childcare savings account as well. Up to £55 of childcare vouchers per week are free of tax and NICs, with lower limits for taxpayers with marginal rates of 40% or more. Employers must offer childcare vouchers to all employees who work at the same site, and the vouchers must not be exchangeable for cash.

40 **Check how much you pay for the fuel used on business trips in your company cars.** Employers can currently pay up to 22p per mile tax free (depending on the size of the car's engine and fuel type) to employees who pay for the fuel used in the company car they drive. If your company has any cars that are not fuel-efficient (such as a 4x4 used to cover rough terrain), you can use a higher tax-free mileage rate, provided the rate can be justified.

£ Tip

You can reimburse up to £8,000 of a new employee's moving costs tax free if they have to move house to take up the employment.

41 **Pay for pensions advice for employees.** You can pay for up to £500 of individual pensions advice per person per tax year when your employees are approaching retirement age, or are in ill health, and they will not be taxed on this useful benefit. You could also provide pensions advice under a scheme which is open to all employees generally regardless of age or health.

42 **Reimburse the costs of a new employee's moving expenses.** You can reimburse up to £8,000 of a new employee's moving costs tax free if they have to move house to take up the employment. If you pay more than this amount, the excess is taxed as part of the employee's salary. This tax relief only applies if the new employee does not already live within a reasonable daily travelling distance of their new place of work.

43 **Provide your employees with an annual health check and eye test.** The health check is free of tax. Medical treatment paid for by an employer is generally a taxable benefit. However, there is an annual exemption of up to £500 where you fund medical treatment that will assist an employee's return to work from sickness or injury. The eye test is also tax free if the employee needs to use a computer screen or similar display screen as part of their job. Any special corrective lenses required to use that equipment can also be provided tax free.

44 **Pay employees a tax-free allowance for each night spent away from home on business.** A £5 tax- and NIC-free allowance can be paid for nights spent away in the UK on business. This is in addition to the cost of the employee's accommodation, meals and travel, which can be reimbursed if receipts are produced. The tax-free amount is £10 per night if the overnight stay is abroad.

45 **Encourage car sharing with tax-free payments to employees.** Pay your employees an extra tax-free 5p a mile for each fellow employee they take as a passenger, when travelling to work-related training courses or making other business journeys using their own car.

46 **Don't forget to party!** Even the smallest business can host an annual tax-free social function for its entire staff, including the directors and their partners. As long as the cost per head is less than £150 (including VAT), employees are not taxed for having a good time and the company benefits from full tax relief on the expense incurred.

£ Tip

You need to be particularly careful if you have established non-UK residency status based on the number of UK ties that you have.

47 **Supply your employees with one tax-free mobile phone each.** Mobile phones provided to employees are tax free, as long as it is the employer rather than the employee who owns the phone and takes out the contract with the telecoms company.

Overseas aspects – planning when abroad

48 **Be careful of your UK residency status.** Your UK tax residency status is determined on a year-by-year basis, without any averaging of days of residence between tax years. You need to be particularly careful if you have left the UK, and want to remain non-resident for tax purposes based on the number of UK ties that you have. Spending more than 90 midnights in the UK in one tax year will mean one more UK tie for the following two tax years. You also need to be careful of the number of days that you spend working in the UK. A detailed record of your movements is essential.

49 **Consider leaving the UK to avoid UK taxes on your worldwide income and gains.** If you are not UK-domiciled for tax purposes, only the income and gains you bring into the UK are taxed here, although you may have to pay a remittance basis charge. However, you will become deemed domiciled in the UK once you have been tax resident here for at least 15 out of the previous 20 tax years. Your deemed domicile status will apply from the 16th year of UK residence, and you will then be subject to UK tax on your worldwide income and gains. Additionally, IHT will be chargeable on gifts of assets situated anywhere in the world. Once you have been in the UK for 15 consecutive tax years, you will have to leave for at least 6 years before being able to return without any domicile consequences.

50 **Realise gains free of UK CGT while living abroad.** You can't escape CGT on the sale of UK residential property while living overseas, but gains on other assets such as shares or commercial property can be tax free, as long as you are non-resident for more than five years. The five-year clock starts from your date of departure, but be warned that for tax purposes, your date of departure might not be the date you physically leave the UK.

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