Valuable things can be done between now and 5 April

Year End Tax Planning Guide

JACKSON STEPHEN

ACCOUNTANTS / ADVISERS

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Year End Tax Planning Guide

Introduction

The impact of the Covid-19 pandemic may have significantly affected your levels of income and value of your investments or even led you to reconsider your strategies be it personal or financial. Now maybe the time to consider not only year end tax planning but your intentions for the future. If you wish to discuss anything in this guide or future planning opportunities, please contact a member of the team.

Before the end of the tax year, it is a good idea to take a step back and review what can be done to ensure you are benefitting from all of the reliefs and exemptions available to you and to prepare yourself for any changes in legislation that may be relevant to you.

Our private client and corporate tax teams have prepared a comprehensive tax planning guide to ensure you don't overlook any valuable things that can be done between now and the end of the tax year.

If you answer 'YES' to any of the tax planning ideas contained in the guide please don't hesitate to contact us to ensure your tax planning is carried out efficiently and effectively.

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Income Tax (also see Tax Efficient Investments pages 7 & 8)

Consider how much taxable income you will have for the year to 5 April and discuss with us whether it might be possible to manage your tax position using various reliefs, tax rate thresholds and exemptions. See below for specific options which might apply.

	Yes	No
Pension Contributions: Consider making pension contributions before 6 April, one effect of which is to increase your basic rate band threshold and reduce the tax rate applicable to (some) income which might for example currently be exposed to higher rate (40%), down to the basic rate (20%).		
Personal Savings Allowance (PSA): The PSA allows the first £1,000 of interest on savings income to be received tax-free (£500 for higher-rate taxpayers). Additional-rate taxpayers do not benefit from any tax-free allowance.		
Child Benefit & Personal Allowance withdrawal: Personal pension contributions before 6 April might also help you to avoid or minimise (i) the withdrawal of the personal allowance for taxable income in excess of £100,000, and (ii) the clawback of child benefit receipts for individuals with taxable income in excess of £50,000.		
Gift Aid: If you are committed to, or are planning to make, any charitable donations which should qualify for "Gift Relief", consider the timing of these payments which also extend the basic rate band (like pension contributions) and can help mitigate income tax liabilities as well.		
Income Planning: Consider whether income likely to be received in the last few weeks of the tax year might be capable of being diverted to other members of the family, or dependants, in order to take advantage of their own reliefs and allowances. In particular, dividends on shares in your privately-owned company can be a source of income diversion.		
Dividends: Diverting dividend income to others can make sure that personal allowances and the dividend nil rate band are fully utilised (both at zero income tax) and that low tax cost basic rate bands are also utilised (at just 7.5%). For those who own their private company.		

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Income Tax (also see Tax Efficient Investments pages 7 & 8)

	Yes	No
Taxable Business Income: Where you operate as an unincorporated business, you may have some flexibility in managing the timing of your income or the timing of costs, each of which might then help you manage your overall personal tax exposure for the tax year.		
The Marriage Allowance: Where neither of two spouses has income suffering tax at above the basic rate and one of those spouses has an unutilised personal allowance, 10% of the personal allowance can be transferred to the other spouse for their use in reducing taxable income (this does not need to be subject to election before 5 April).		
Overlap Relief: For individuals operating through a sole trader or partnership business, discuss with us the potential benefits of incorporating the business or making a change of accounting date, both of which can serve to access what is known as "overlap relief" for taxpayers who have typically suffered tax twice on previous profits in their unincorporated businesses.		
Mortgage Interest Relief: The restriction on mortgage interest available to offset against rental income for individuals has now been fully phased in and restricted to the basic rate of tax from 6 April 2020. It may be worth taking the time to consider whether incorporation may be a beneficial way to structure your business to avoid the impact of these changes, as companies are not affected.		
Non-Domiciles: As of 6 April 2017, non-domiciles who are 'long-term' residents, meaning resident in the UK for 15 out of the last 20 years, are deemed to be UK domiciled. This means that the option to claim the remittance basis is no longer available and worldwide income which could have previously been left unremitted and not taxable in the UK is now subject to UK tax. For anybody to whom these changes now apply we recommend that you seek our advice.		
R40: The deadline for claims for repayment is four years from the end of the tax year. If applicable make sure you submit your claim on time.		

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Capital Gains Tax

	Yes	No
Annual Exemption: Have you used your annual capital gains exemption amount of £12,300? If not, consider the merits of outright disposal of chargeable assets or of bed and breakfasting (see below).		
Bed and Breakfasting: Crystallise gains and utilise your annual capital gains exemption on shares you hold by selling them (at a gain) and buying them back. To avoid the anti-avoidance 'bed and breakfasting rules', which attempt to prevent this, you can buy them back using your pension, ISA or through your spouse!		
Nil Gain, Nil Loss: You can transfer assets to your spouse on a 'Nil Gain, Nil Loss' basis, meaning that prior to a disposal you can gift part or all of an asset to your spouse who will 'acquire' the asset with your base cost, therefore utilising their annual allowance on disposal.		
Negligible Value Loss Claims: Review the value of your assets before 5 April to see if you can take advantage of a negligible value loss claim and seek advice to see if you are eligible. Negligible value claims can be useful in reducing an individual's CGT liability if they own assets that have become virtually worthless since their acquisition.		

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Owner Managed Business

	Yes	No
Company Pension Contributions: If you are currently on a low salary and high dividend remuneration plan, your ability to make personal pension contributions might be significantly restricted. Speak to us about remuneration planning and the options available – such as your private company making the contributions directly.		
Business Losses: Do you have losses in the current tax year? Or the ability to accelerate expenses (e.g. marketing expenditure) which might create a loss? Sideways loss relief allows a sole trader to offset trade losses against other income (e.g. employment income, dividends, rent etc), thereby reducing or eliminating the tax due on that other income. Indeed, in the case of employment income (where tax is generally deducted at source), a refund can often be achieved.		
Capital Allowances: Have you purchased any equipment or plant & machinery before your business year end to ensure these allowances are available at the earliest opportunity?		

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Employees/Employers

	Yes	No
Salary Sacrifice: Where employees are interested in receiving pension contributions or other benefits, instead of salary, this opens up the way to reduce taxable income and minimise NI costs including minimising the uncapped 13.8% Class 1 NI charge for employers. You may want to take advice about operating a tax effective "salary sacrifice" arrangement to progress this tax efficiently.		
PAYE Code: Before the new tax year starts, avoid a surprise balancing payment on 31st January by reviewing your tax code or by sending us the coding letter to check it for you.		
Childcare: The childcare vouchers scheme was closed to new applicants from 4 October 2018. This has been replaced with The Government's Tax Free Childcare Scheme. Parents can save up to £2,000 per child, per year and it is available for children up to the age of 12 (17 if disabled).		

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	Yes	No
Gifts of Assets: On top of the exemptions for specific gifts such as charitable or wedding gifts, an annual exemption of £3,000 is also available to utilise. It is possible to carry forward any unused annual exemption from the previous year meaning that up to £6,000 of assets can be passed down to family members before 6 April.		
Small Gifts: You can give as many gifts of up to £250 per person as you want during the tax year as long as you haven't used another exemption on the same person.		
Regular Gifts Out of Income: You may wish to consider establishing a pattern of making regular gifts out of your excess income. These gifts are not subject to inheritance tax and reduce the value of your Estate?		

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Tax Efficient Investments

	Yes	No
ISAs: Check that you and your spouse or partner have fully utilised your ISA allowances of £20,000 each, giving a combine allowance of £40,000. With the wide range of advantageous investment opportunities and arrangements being marketed as a matter of public policy, it is easy to forget that certain ISAs can offer attractive returns on investment and that any income generated within the ISA is free from tax.		
Lifetime ISAs: The Lifetime ISA (LISA) has been available since 6 April 2017 to any UK resident aged between 18 and 39. The Government will add a 25% bonus to any contributions made up to the maximum amount of £4,000 per tax year. You can only withdraw the funds (and bonus) from a Lifetime ISA for your first home, or if you are aged over 60. In any other circumstances there is a penalty of 20% (increasing to 25% on 6 April 2021). Can you take advantage of the annual bonus before 5 April?		
Junior ISAs: Have you considered investing up to £9,000 in a Junior ISA for any child under the age of 18?		
Innovative Finance ISAs: An innovative Finance ISA allows you to use your ISA limit to save with a peer-to-peer lender, or certain crowd-funding companies. These ISAs will form part of your £20,000 annual ISA limit.		
Enterprise Investment Scheme: Subscription for tax-advantaged investments such as shares which fall under the Enterprise Investment Scheme will entitle the investor to deduct up to 30% of the amount invested from their total income tax liability for the year up to a maximum of £1m investment per tax year. For this, (i) make sure the investments are acquired before 6 April, and (ii) make sure that you have enough Income Tax liability in the year (and/or the prior tax year) to fully utilise the 30% tax credit involved. EIS investments also offer the ability to defer capital gains, permit tax free growth and receive loss relief should the investment fail.		
Venture Capital Trust investment: VCT's also offer a 30% income tax credit on investment of up to £200,000 each year, as well as tax-free dividends and capital gains tax reliefs.		

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Tax Efficient Investments

	Yes	No
Seed EIS: A SEIS investment can carry more risk than an EIS or VCT, however, there is substantial tax relief available. Investors can receive an income tax credit of 50% on qualifying investments up to £100,000 per tax year in qualifying shares.		
Social Enterprise Investments: Investing in certain 'social impact' organisations can also attract an income tax credit of 30%.		
Spouse and Child Pension: You can make contributions of up to £3,600 into a pension scheme for a spouse, civil partner or child if they have no earnings of their own, to obtain basic rate tax relief on the contributions. For example, if you contribute £2,880, HMRC will pay in £720, giving a gross contribution of £3,600.		
Annual Pension Allowance and Carry Forward: An annual pension contribution allowance of £40,000 is available to most individuals and, once utilised, any unused annual allowance from the previous three years can be carried forward and used in the current tax year. This presents potential scope for large contributions (where they might be possible and advantageous). The annual investment allowance has been restricted for those with adjusted income in excess of £240,000.		

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Property Taxes

	Yes	No
Stamp Duty Land Tax (SDLT): In 2020 the Chancellor announced a SDLT holiday for house purchases up to £500,000, although the 3% surcharge on certain purchases remains. The holiday is due to end 30 June 2021, the nil rate amount will then reduce to £250,000 and will return to the previous nil rate amount of £125,000 from 1 October 2021. We suggest, where possible, transactions are accelerated such that they complete before the end of the SDLT holiday.		

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Divorce and Separation

	Yes	No
Capital Gains Tax: For tax purposes, it is possible to transfer assets between spouses on a no-gain, no-loss basis for CGT purposes. This treatment changes on separation and divorce. Where spouses are living together at some time in a tax year, assets can be transferred between them at any time in that tax year at no-gain or loss. If separation is imminent, but can be delayed until the start of the next tax year, the no-gain, no-loss rule can continue to apply for the full tax year. There is no requirement for the spouses to be living together at the time of transfer.		

The information contained within this guide is intended as a guide only to highlight general issues of interest based on current tax law. It is not meant to be a substitute for full professional advice and specialist assistance should always be obtained in respect of any particular circumstances.

Accordingly, Jackson Stephen LLP cannot accept any responsibility or liability for any losses incurred by any person acting or refraining from acting as a result of any material in this guide.

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