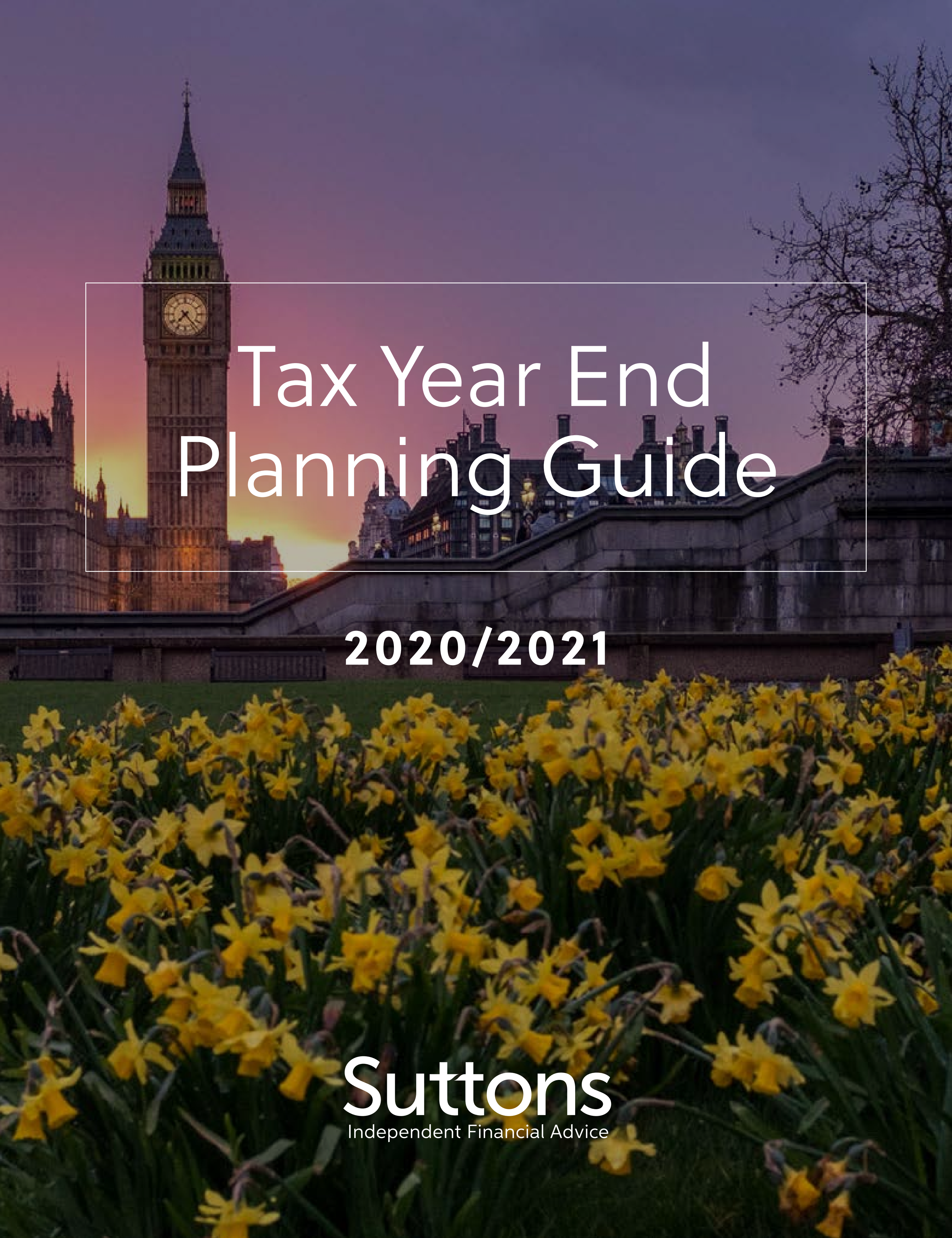

# Tax Year End Planning Guide

## 2020/2021

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## Tax Year End Planning Guide – 2020/2021

After a challenging 2020, the first few months of the year are a good time to start afresh and make plans for the future. With a more optimistic spring approaching, it's worth using your tax allowances and making sure your financial plans are back on track.

We have created this quick reference guide explaining the main tax reliefs, what you need to do, and why this is a good idea.

### Tax Year End Checklist

Before 5th April 2021, you might want to look at the following areas to improve your tax position:

- ISAs
- Pension Contributions
- Income Tax Allowances
- Capital Gains Exemptions
- Charitable Gifting
- Inheritance Tax Planning
- Property Investments
- Tax Advantaged Investments

These are explained further in the following sections.

## Individual Savings Accounts (ISAs)

### What Should I Do?

- Make sure your ISA contributions are up to date by 5th April 2021. You can contribute up to £20,000 in the current tax year.
- Opt for a Stocks and Shares ISA if you are seeking long-term growth. A Cash ISA is better suited to short-term savings.
- Top up any Junior ISAs for your children or grandchildren. Contributions of up to £9,000 are allowable.
- If you are between 18 and 40, and saving for your first property, a Lifetime ISA (LISA) may be the best use of the first £4,000 of your contributions. The government will top this up by 25%, on the condition that the money is used to buy a first home or to provide retirement benefits.

### How Will It Benefit Me?

ISAs are a tax-efficient investment. No tax is payable on any of the income or growth, and you can withdraw money without penalty, unless this is outside the contract terms. A LISA, for example, does incur a penalty if you withdraw the money before age 60, for a purpose other than buying a home.

As ISA allowances cannot be rolled over, if you don't use your allowance by 5th April, it will be lost. That's a potential £20,000 reduction in your tax-efficient investment pot.





## Pension Contributions

### What Should I Do?

- Make sure you have opted into any pension scheme provided by your employer.
- Consider increasing your contributions. You will barely notice a small annual increase, but it will make a huge difference to your eventual retirement fund.
- Check you are reclaiming higher and additional rate tax relief. If your contributions are paid by salary sacrifice, this will happen automatically. If you pay personally, or via the 'net pay' method, you will need to reclaim the tax relief. This is simple enough if you already complete a tax return. If you don't, you should contact HMRC or discuss with an accountant.
- Use your pension contributions to control your tax liability. Making pension contributions can take you into a lower tax band. While this is sensible for any higher rate taxpayer, it is particularly attractive for those earning £100,000 - £125,000, as it can save tax at an effective rate of up to 60%.

- Make use of your carried forward allowances. You can contribute up to £40,000 in each tax year, but this can be carried forward by up to three years. So, in theory, you could contribute up to £160,000 in a single tax year. This is further limited by your annual earnings if the contributions are made personally. A company can contribute on your behalf – while the allowable amount is not dependent on earnings, the contribution must be deemed reasonable by the Local Inspector of Taxes.
- If you have already taken taxable benefits from your pension, you may be subject to the Money Purchase Annual Allowance. This reduces tax-relieved contributions to £4,000. This can't be carried forward to future tax years, so if you are still paying into your pension, make sure the contribution is in before 5th April.
- Consider contributing up to £3,600 gross (£2,880 net) for a non-earning spouse or child. They will still receive 20% tax relief despite having no taxable income.
- Check if your remuneration is likely to exceed £240,000 (including employer pension contributions) as this will reduce your annual allowance. You may have some extra tax to pay if you have exceeded the allowable contribution limit.

## How Will It Benefit Me?

Pensions are one of the most efficient ways to save for retirement, particularly for higher and additional rate taxpayers. All income and growth is free of tax while the funds are invested. On retirement, 25% of the fund can be paid out to you as a tax-free lump sum. The remainder is taxed at your personal rate, but can be withdrawn flexibly.

It makes sense to pay in as much as possible, providing this is affordable, and that it doesn't breach the various allowances.

Pensions are also considered outside your estate for Inheritance Tax, so can form part of a legacy plan.





# Income Tax Allowances

## What Should I Do?

- Transfer assets to your spouse if they pay a lower rate of tax.
- Arrange your savings and investments to take advantage of the following:
    1. Personal Savings Allowance – this is the amount of interest that can be received before being subject to tax. The amount is £1,000 for basic rate taxpayers and £500 for higher rate taxpayers. Additional rate taxpayers do not receive this allowance.
    2. Starting Rate for Savings – interest of up to £5,000 may be paid free of tax, providing this forms part of your total income, which does not exceed £17,500.
    3. Dividend Allowance – dividends of up to £2,000 per year may be drawn (from your own company or from investments) without tax liability.
- Take advantage of the Marriage Allowance – a lower-earning spouse can transfer up to £1,250 of their tax-free personal allowance to their higher-earning partner, potentially reducing the family's tax bill by up to £250.

## How Will It Benefit Me?

Using these allowances can save on tax, without placing the money out of your reach, or making substantial changes.

## Charitable Gifting

### What Should I Do?

- Make any charitable gifts you were planning before the end of the tax year. For every £80 you contribute personally, the charity can receive £100.
- Claim higher rate tax relief on your gift. For higher rate taxpayers, a gift of £100 may only cost £60.
- Consider making larger gifts if your income is over £100,000. You can receive tax relief of up to 60%. Relief is limited to gifts worth four times your tax bill in the relevant year.
- Remember to claim tax relief on any gifts made in 2019/2020, as you can carry back tax relief to the previous tax year, providing this is done before your tax return is due. This can be useful if your tax bill was higher last year.
- Think about gifting shares. No capital gains tax is due either when you gift the shares, or when the charity eventually sells them

### How Will It Benefit Me?

You can save substantial amounts of tax, while contributing to good causes.





## Capital Gains Tax Exemptions

### What Should I Do?

- Make use of your annual exemption. You can sell shares, and realise gains of up to £12,300 without paying tax.
- Allocate some shares to a spouse. This does not incur tax, and means that you have double the exemption to set against gains.
- Avoid re-purchasing any shares sold within 30 days. This results in the transaction being ignored for CGT purposes.
- Sell shares to realise a loss. The loss can be carried forward to set against gains in future years.

### How Will It Benefit Me?

By using up your annual exemption, this can help avoid gains rolling up. If you need to sell shares in the future, the tax bill is likely to be lower, or even nil.

## Inheritance Tax Planning

### What Should I Do?

Gift up to £3,000 for an immediate reduction to the value of your estate. You can also carry forward this allowance by up to one tax year. A couple could potentially gift up to £12,000 by using two tax years' worth of allowances.

- Make larger gifts if you wish. These drop out of your estate after 7 complete tax years, so making the gift before 5th April starts the clock ticking earlier.

### How Will It Benefit Me?

Making gifts ensures that more of your estate passes to those you intended, without deduction of tax.

## Property Investments

### What Should I Do?

- Check the tax relief available on your mortgage interest. This will be limited to basic rate relief only from 6th April 2020.
- It may be appropriate to either reduce mortgage debt, or transfer ownership to a spouse if they pay a lower rate of tax.
- Setting up a property company can be more tax efficient than owning investment property personally. This is extremely complicated, and good tax advice is essential, particularly if you already own properties.

### How Will It Benefit Me?

It may be possible to reduce the amount of tax you pay on property rental. Good advice is required to mitigate the increased tax measures put in place in recent years.



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## Tax Advantaged Investments

### What Should I Do?

- Consider investing in smaller, high-growth (and high-risk) companies. This can be done via an Enterprise Investment Scheme (EIS) or Venture Capital Trust (VCT). These are high risk investments and you could lose your investment. They are only suitable for high net worth, experienced investors who are prepared to invest for the long term. You should only proceed after seeking advice.

### How Will It Benefit Me?

- Investing in this type of asset could reduce your income tax bill by up to 30% of the investment amount, or 50% if the investment is made in a particularly high risk version of the EIS.
- An EIS investment offers the added advantage of being able to carry back relief to the previous tax year.
- EIS investments are also considered to be business assets, and are subject to 100% Inheritance Tax relief if held for at least 2 years.

Please don't hesitate to contact a member of the team if you would like to find out more about planning for the tax year-end.


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