BOND Chartered Accountants

KEY GUIDE

Year end tax planning

Introduction

MAKE THE MOST OF YOUR RELIEFS AND ALLOWANCES

Planning this year is more difficult than usual with the cancellation of the November Budget and uncertainty around the general election. So, as the year end approaches it is more important than ever to make the most of the reliefs and allowances available in case they are not there in future. This guide offers some advice on the core opportunities you should consider. With ideas affecting income and investment, for couples, company directors and employees, there will be something for everyone. We also provide essential tips for those reviewing their estate plans.

The guidance included forms the base of a good financial plan to complete the year. If you would like further advice on any of the topics, or to discuss how they affect your individual circumstances, please get in touch.

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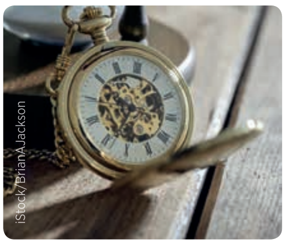

TAX-EFFICIENT INVESTMENTS

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Income tax saving for couples

Switching income from one spouse or partner to the other can help save tax. You should always aim to use both individuals' personal allowances (£12,500 in 2019/20, with a similar figure enacted for 2020/21) and minimise any higher and additional or top rate tax.

- Income over £150,000 is currently taxed at 45%, or 46% for non-savings, non-dividend income in Scotland.

- The personal allowance is withdrawn where income (less certain deductions) is more than £100,000.

You might be able to reorganise your financial affairs between you to avoid exceeding one of these limits. However, capital gains tax (CGT) may be payable on switching ownership of an investment if you are not married or in a civil partnership.

You can each receive £2,000 of dividends tax free in 2019/20 regardless of your tax status. Reorganising your shareholdings between you may make better use of this limit. You can also receive £1,000 of savings income tax free if you are a basic rate taxpayer, and £500 if paying tax at the higher rate.

If you or your partner have little or no earnings or pension income, you might also benefit from a 0% tax rate on up to a further £5,000 of savings income. Again, shifting assets between you can help minimise tax on your savings income. A £1,000 tax-free allowance is available for income from property, such as where a parking space is let out, so joint ownership could result in a modest tax saving.

Child benefit

Where either partner has income of £50,000 or more then child benefit is in effect withdrawn. This is total if income is over £60,000, and partial for income between £50,000 and £60,000. You may be able to keep some or all of your child benefit by switching income between you and your partner, or by taking other steps to bring your income below one of these limits.

Partner's salary

- If you are in business, you could pay an otherwise non-earning partner a salary, on which you will get tax relief. You normally must keep PAYE records even if the salary is below the national insurance contributions (NICs) limit, which is £512 a month in 2019/20. If, however, the salary is between £512 and £719 a month, your partner will avoid paying any NICs, but will still qualify for state benefits.

- You can also pay an employer's contribution to your partner's personal pension plan. There are no taxes or NICs on the payment itself, and it should be an allowable business expense. However, the total value of your partner's salary, benefits and pension contributions must be justifiable in relation to the work performed.

- Alternatively, you could plan ahead to share the profits of your business by operating as a partnership in 2020/21. You both need to be genuinely involved as business partners, though not necessarily equally.

Planning point

Although some planning is possible before the end of 2019/20, you will gain the maximum income tax saving if plans are put in place before 6 April 2020 so that you benefit for the entire 2020/21 tax year.

DIRECTORS AND EMPLOYEES

Bringing forward income will also be a sensible approach if you think that next year's tax rates will go up following a post-election Budget.

- If your income will fall below £150,000 in 2020/21, you might be able to avoid the additional or top rate of income tax this year by delaying a bonus until after 6 April 2020.

- If your income is less than £150,000 this year but is expected to exceed that figure next year, you could bring forward income into 2019/20 to avoid the additional or top rate next year.

A similar strategy can keep your income below the level at which you would lose your personal allowance. Alternatively, you could sacrifice salary to bring your income below any of the thresholds in exchange for a tax-free employer's pension contribution.

Key considerations

- If you are going to **work abroad** for more than a year, it may help to leave the UK before 6 April 2020. There are complex rules around residency, so you should take specific advice.

- This is also a good time to review your **company car** situation given the planned changes in 2020/21. Choosing to drive a fully electric car will mean you pay no company car tax for 2020/21, with a small charge the following year. Ultra-low emission hybrid cars with a high electric motoring range will also benefit from a low tax cost. In contrast, the tax on company cars with higher CO_2 emissions will increase next year, so switching to an electric or hybrid model will mean significant tax and NIC savings for you and your company, as well as reducing other costs.

- If your business is affected by the **personal service company** rules (IR35), it is important to calculate how much salary to draw before 6 April 2020 to avoid being taxed on a 'deemed payment'. You also need to plan for the off payroll working rules that will apply to IR35 engagements from 2020/21 onwards.

Dividends

You should consider paying a dividend before 6 April 2020 if you operate your business as a limited company, particularly if you have not already made full use of the £2,000 tax-free allowance.

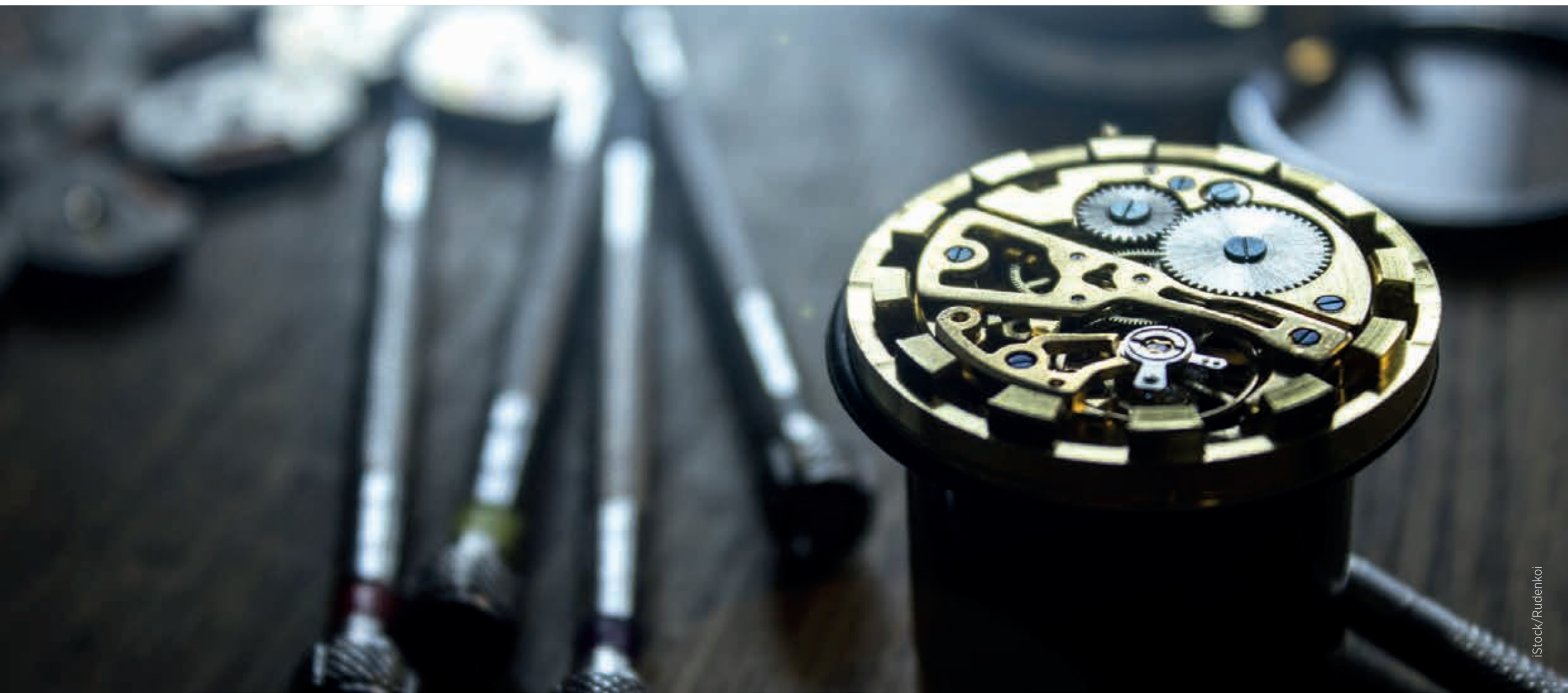
Bringing forward a dividend could also help. For example, if the income falls into the basic rate band this year, or Scottish starter, basic or intermediate rate bands, or if you expect to pay tax at the additional or top rate next year but only at the higher rates this year.

You could even give shares to your spouse or civil partner shortly before paying a dividend, provided you genuinely transfer ownership. It is advisable to leave as much time as possible between the gift and the subsequent dividend payment.

If you are self-employed, you might be able to affect the timing of your taxable profits to avoid paying tax at 45%, or 46% in Scotland, but this will depend on your accounting date.

> **Planning point**
>
> There are now fewer tax advantages to running a business as a limited company than was previously the case. Given the current uncertainty over the direction in which tax rates could go, you might want to delay incorporating your business until there is more clarity.

Useful link: www.gov.uk/business – helpful advice for businesses.



CAPITAL GAINS TAX PLANNING

By planning, you can minimise your capital gains bill.

- Everyone has an annual CGT exempt amount, which in 2019/20 makes the first £12,000 of gains free of tax.
- Most gains above the exempt amount are taxed at 10% where taxable gains and income are less than the non-Scottish basic rate limit of £37,500 in 2019/20.
- The rate is 20% on gains that exceed this limit. Residential property gains are taxed at 18% and 28%.

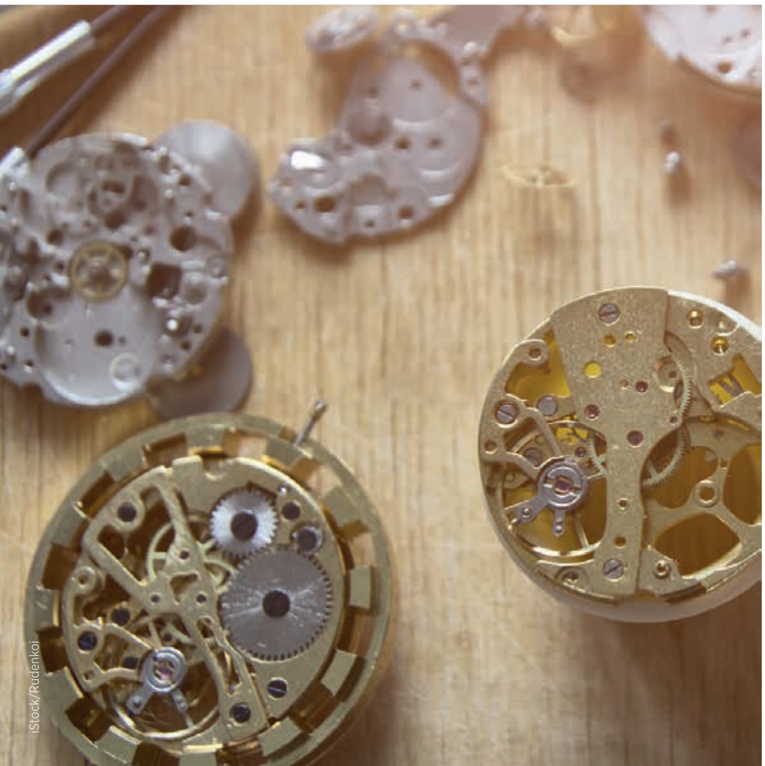
You should generally aim to use your annual exempt amount by making disposals before 6 April 2020. If you have already made gains of more than £12,000 in this tax year, you might be able to dispose of loss-making investments to create a tax loss. This could reduce the net gains to the exempt amount.

Timing disposals

If your disposals so far this tax year have resulted in a net loss, the decision on whether to dispose of investments to realise gains before 6 April 2020 will depend on the amounts involved. Depending on your level of income, timing your disposals either before or after the end of the tax year could result in more of your gains being taxed at 10% rather than 20% (or 18% instead of 28%).

Transferring assets between married couples or civil partners before disposal might save CGT, particularly where one partner has an unused exempt amount, has not fully used their basic rate tax band or has capital losses available. You should generally leave as much time as possible between the transfer and the disposal.

CGT is normally payable on 31 January after the end of the tax year in which you make the disposal. You could therefore delay a major sale until after 5 April 2020 to give yourself an extra 12 months before you have to pay the tax. However, from 6 April 2020, a payment on account of CGT must be made within 30 days of a residential property disposal (where it is not an exempt principal private residence disposal). This means CGT will be payable much sooner for a non-exempt residential property disposal made early in 2020/21, compared to one made during 2019/20.



Planning point

Timing your disposals is particularly important if disposals in this tax year have resulted in a net loss. Depending on the level of your income, making a disposal either side of the tax year end could save or cost you tax.

Your shares or assets might become virtually worthless. If so, you can claim the loss against your capital gains without actually disposing of the asset by making a negligible value claim. You can backdate the loss relief to either of the two tax years before the one in which you make the claim, provided that you owned the asset in the earlier year and it was already of negligible value. The deadline for backdating a claim to 2017/18 is 5 April 2020.

PENSION TAX PLANNING

Investing in a pension plan is usually worthwhile because of the tax privileges.

Pension funds are broadly free of UK tax on their capital gains and investment income. When you take the benefits, up to a quarter of the fund is normally tax free, but the pension income will be taxable.

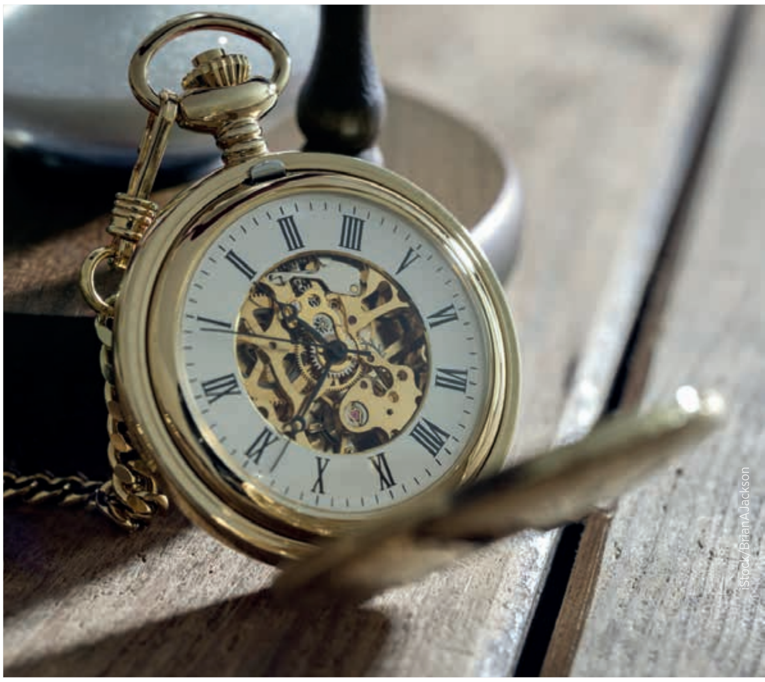
Most people aged 55 and over can draw their pension savings flexibly. Withdrawals above the tax-free amount are liable to income tax at your marginal rate. You should take advice before accessing pension savings as there are several options and they will generally have a long-term effect on your financial position.

Lifetime allowance

The maximum you can hold in a tax-favoured pension scheme without triggering an extra tax charge is £1.055 million in 2019/20 (expected to rise by at least the consumer price index in 2020/21).

Planning point

If you plan to draw from your pensions and have funds just over the current £1.055 million lifetime limit, you might want to delay taking benefits until after 5 April 2020.



Contributions

There is an annual limit of £40,000 on pension contributions that qualify for tax relief, although this limit is tapered down to a minimum of £10,000 if your income exceeds £150,000. You can, however, carry forward unused annual allowances for up to three years to offset against a contribution of more than the annual limit. For people already drawing a flexible income from a pension, the annual allowance is £4,000.

- You can pay up to the whole of your earnings into a pension scheme, but the tax relief is capped by the annual allowance plus any unused allowances brought forward.
- Tax relief on pension contributions is at least 20%, and higher or additional rate taxpayers receive relief at 40% or 45%. In Scotland, intermediate, higher and top rate taxpayers receive relief at 21%, 41% or 46%. Limiting your contributions to amounts that qualify for at least 40% tax relief will give you the most benefit.
- Effective relief can be as high as 60%, or 61.5% in Scotland, where the personal allowance is being withdrawn, and can be even higher if tax credits are being withdrawn.
- You could set up a pension for your partner or children since they don't need earnings to build up to £3,600 in a personal pension. Even if they do not pay any tax, they can still benefit from 20% tax relief.

Useful link: www.gov.uk/plan-retirement-income – information about pensions and pensioner benefits.

TAX-EFFICIENT INVESTMENTS

Some investments have income tax and CGT advantages.

Individual savings accounts

You can invest in one cash individual saving account (ISA), one stocks and shares ISA and one innovative finance ISA in each tax year. If you are aged 18 to 39, you can also invest up to £4,000 in a lifetime ISA. However, the maximum investment limit of £20,000 (for 2019/20) applies across all four types of ISA. It may be invested in one type of account or split between two or more of the four. ISAs are free of UK tax on investment income and capital gains, and there is a wide choice of investments, including peer-to-peer lending in the innovative finance ISA.

The government adds a 25% bonus to investments of up to £4,000 a year in a lifetime ISA. You can use these savings to help buy a first home or keep the funds for retirement. A lifetime ISA will be a more attractive approach to retirement saving than a traditional pension for some, or you can, of course, opt for both forms of pension saving.

Remember that 16- and 17-year-olds can open a cash ISA, but the rules effectively prevent you from opening an ISA for them. Parents and others can contribute to a junior ISA for children up to 18 who do not have a child trust fund. The contribution limit is £4,368 in 2019/20 and funds are locked in until the child is 18.

Enterprise investment schemes

The enterprise investment scheme (EIS) gives tax relief for investing in new shares in relatively small qualifying trading companies that are not listed on any stock exchange. The seed enterprise investment scheme (SEIS) is similar but aimed at start-up companies.

Income tax relief

An EIS receives income tax relief at 30% on up to £1 million a year invested, plus a further £1 million invested in knowledge-intensive companies. A SEIS receives 50% relief on investments of up to £100,000 a year.

CGT reliefs

Gains from both EISs and SEISs escape CGT after three years.

- **EIS –** It is possible to defer CGT on a gain of any size, on the disposal of any asset, by reinvesting the gain in shares that qualify under the EIS. An EIS investment can be used to defer gains made up to three years earlier.
- **SEIS –** Half the investment can be matched with gains arising on the disposal of assets, with the matched portion being exempt from CGT. This can give total tax relief of 60% – 50% income tax relief plus 10% CGT relief (half of the normal higher CGT rate of 20%).

Planning point

While the £500/£1,000 savings income allowance and the £2,000 dividend allowance mean that ISAs no longer offer significant tax advantages for many savers, they remain valuable for wealthier investors and those who build up substantial tax-free savings by regularly investing the annual maximum.

Venture capital trusts

You can obtain income tax relief of 30% by subscribing up to £200,000 for shares in venture capital trusts (VCTs) in 2019/20. Gains are generally exempt from CGT. VCTs are investment trusts that invest in a range of relatively small trading companies.

It is important to remember that EIS/SEIS shares and VCTs are high-risk investments. They may be difficult to sell and you should take specialist advice.

Useful link: https://uk.reuters.com – financial and market analysis

INHERITANCE TAX PLANNING

Most IHT planning is not related to the tax year end, but this is as good a time as any to review your will.

Inheritance tax (IHT) is payable if a person's assets at death, plus gifts made in the past seven years before death, add up to more than the nil rate band, currently £325,000. An additional nil rate band is available where a residence is left to direct descendants – £150,000 in 2019/20, increasing to £175,000 from 2020/21 onwards.

When a surviving spouse or civil partner dies, their estate will generally benefit from any unused IHT nil rate band of their previously deceased spouse or partner, up to the £325,000 maximum. Any unused additional nil rate band can similarly be transferred, up to a limit of 100% of the maximum available amount at the time of death of the surviving spouse or civil partner.

There are several reliefs and exemptions, some of which are related to the tax year.

- Gifts totalling up to £3,000 in a tax year are exempt from IHT. If you didn't use this exemption in 2018/19, you can make IHT-free gifts of up to £6,000 before 6 April 2020. If you have already used your exemption for 2019/20, you could delay your next gift until after 5 April 2020 to take advantage of the 2020/21 exemption.

- Regular gifts out of excess income can also be exempt. You need careful documentation to prove that you make the gifts from income rather than capital.

IHT could see significant change over the coming years following a review by the Office of Tax Simplification. One recommendation is that the seven-year survival period be reduced to five years, but with taper relief abolished.

Useful link: www.gov.uk/inheritance-tax – HMRC guide to IHT.

CHARITABLE GIVING

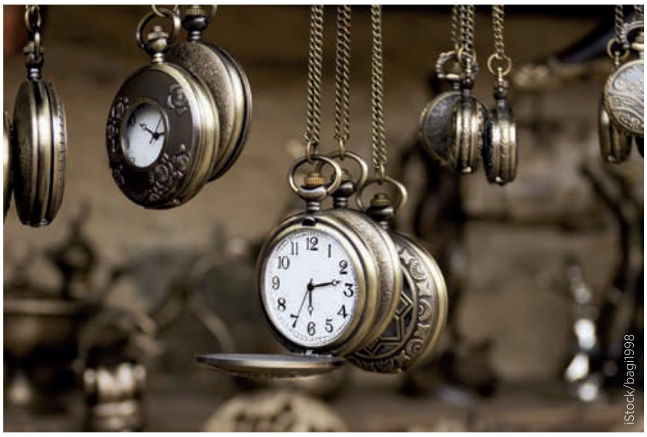
You can get tax relief for any gifts to charity if you make a gift aid declaration.

You make the gift out of your taxed income and the charity benefits by claiming back basic rate tax on the value of the gift. Higher and additional rate taxpayers can claim an extra 20% or 25% in relief. Intermediate, higher and top rate taxpayers in Scotland can claim an extra 1%, 21% or 26% in relief.

You can obtain both income tax and CGT relief on gifts to charities of shares listed on the stock market and certain other investments.

Gifts to charity are free of IHT, so remembering a charity in your will can reduce the total amount of IHT that will be paid on your estate. If 10% of your net estate is left to charity, then the rate of IHT payable will be reduced from 40% to 36%.

Useful link: www.gov.uk/donating-to-charity



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CHECKLIST

- Could you **transfer income to your partner** to minimise higher and top rate taxation next year, to maximise the tax-free savings and dividend income limits, or to avoid losing child benefit?
- Have you considered **the timing of dividends and bonuses to** minimise tax rates?
- Have you used your **annual CGT exempt amount** by making any available disposals before 6 April 2020?
- Have you used **this year's ISA allowance** and made any other tax-efficient investments before 6 April 2020?
- Are you **investing enough in your pension** (or possibly a lifetime ISA) if you wish to, or have to, retire earlier than state pension age, which is likely to keep going up?
- If you are aged over 55, have you taken advice about the options for **drawing your pension savings**?
- Have you made gifts to use your **annual IHT allowances**?

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