PKF FRANCIS CLARK
Shared Ambition

Personal Tax Year-end Planning

With the 2020/21 tax year drawing to an end, here are some ideas to ensure that you are minimising your tax liabilities by maximising your reliefs and exemptions.

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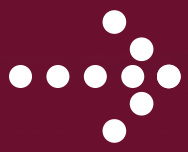


The 2021 Budget

The next Budget will be on Wednesday 3 March, close to the start of the new tax year. It is expected to include tax increases, in order to begin to recoup some of the funds used to combat the Covid-19 epidemic. Due to the pandemic and the fact that the Government is still considering further support measures for affected businesses, we have relatively little information about the Chancellor's taxation plans.

The Government's 2019 election manifesto promised no increase in income tax, national insurance or VAT rates over this Parliament, and we expect corporation tax rates to stay at 19% for the time being, however the Office of Tax Simplification published the first of two reports on capital gains tax in November 2020 which suggested either aligning CGT rates more closely with income tax rates, or looking at the boundaries between income tax and CGT so that more receipts previously taxed as capital would be taxed as income in future. We don't know whether the Chancellor will implement these proposals, but it must be a possibility in the current climate.

Irrespective of the larger picture however, there are still a number of simple measures that you can take to ensure that you are not paying more tax than you legally need to.

Income tax

Are you and your spouse using your personal allowance and lower rate bands in full?

Transfers of assets between spouses and civil partners are tax free and can help to reduce the overall tax burden by making the most of the available allowances and bands.

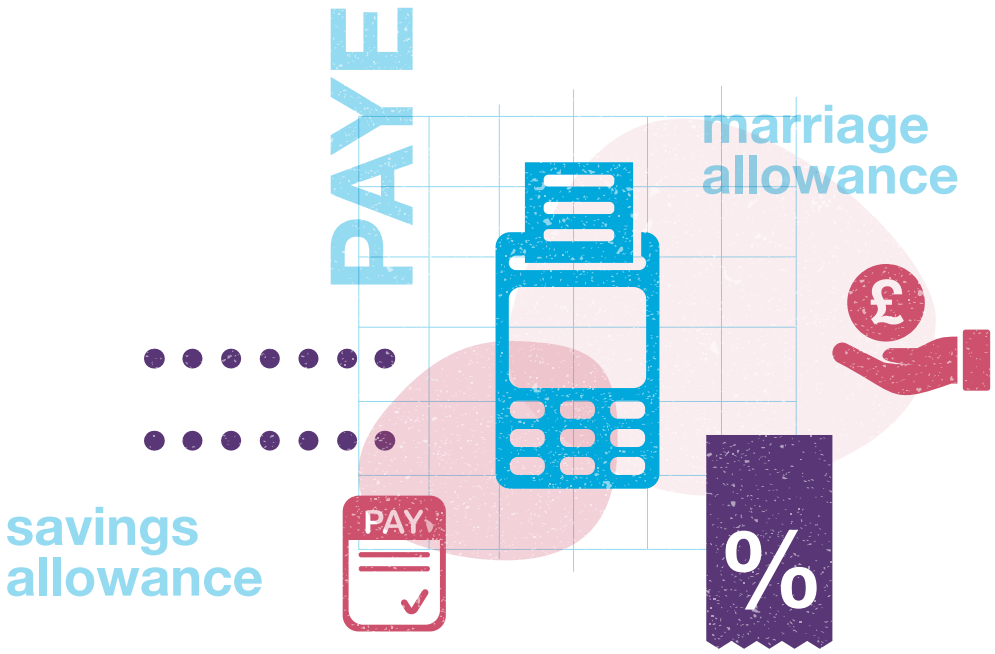
Working at home

You may be able to claim tax relief for some of the bills you have to pay if you have to work at home on a regular basis. You can only claim for things to do with your work, for example, business telephone calls or the extra cost of gas and electricity for your work area. You cannot claim for things that you use for both private and business use, for example, rent or broadband access.

From 6 April 2020 your employer can pay you up to £6 a week (£26 a month) to cover your additional costs if you decide, or are required, to work from home. For previous tax years the rate was £4 a week (£18 a month). You do not need to keep any records to support a claim for the weekly allowance. If you're already within self-assessment, then the claim can be made on your tax return. If you are outside of self-assessment, you can make a standalone claim online.

Charity donations

Ensure you record all your charity donations: your basic and higher rate tax bands are extended by the gross donation, which increases the amount of your income taxed at the lower rates. Once a valid gift aid declaration is made, the charity can claim an additional 25% from HMRC however, if you have not paid enough tax during the year to cover the charity's claim, you will need to pay the shortfall back to HMRC.



Key thresholds, bands and allowances

The main thresholds, bands and allowances are expected to stay broadly the same in 2021/22, though it is possible that rates within those bands may be increased. If you pay your tax via pay as your earn (PAYE) don't forget to check your PAYE coding notice to ensure that you are paying the correct amount of tax and do not end up with a large under or overpayment at the end of the next tax year. Is your income around any of the key thresholds or bands? These are currently £50,000 (higher rate tax), £50,000 - £60,000 (child benefit withdrawal), £100,000 - £125,000 (withdrawal of personal allowances) or £150,000 (additional rate tax). If so, consider the timing of income and tax deductible expenditure where possible.

Don't forget, the transferable marriage allowance of £1,250 is also available to couples where neither one is a higher or additional rate taxpayer.

Consider organising your income producing assets to use the personal savings allowance (PSA) which is available to basic and higher rate taxpayers but not to additional rate taxpayers. The allowance is £1,000 per year for basic rate taxpayers and £500 per year for higher rate taxpayers. Therefore, it is important to ensure that taxable income does not fall into the next tax band as the £1,000 allowance could be reduced to £500 or the £500 allowance to nil if income falls into the next tax bracket by just £1. The PSA works like a 'nil rate band' taxing the income at 0%. It is important to note that this will still utilise part of the basic or higher rate tax band and will not reduce income for the purposes of calculating the personal allowance withdrawal and for purposes of the high income benefit charge (HICBC) claw back.

Savings income above the allowance is taxable at the basic or higher rate as appropriate. In addition, the 0% 'starting rate band' remains at £5,000 for the 2020/21 tax year. This is available in addition to the PSA. The £5,000 allowance is reduced by non-savings income in excess of your personal allowance. Therefore, for the 2020/21 tax year, if your non-savings income is in excess of £17,500 (£12,500 + £5,000) the allowance will be tapered down to nil.

You could also consider taking dividends from your business to use the dividend allowance of £2,000 per year that is available to all taxpayers. Consider making use of this allowance for all shareholders before the end of the 2020/21 tax year.

The rates of tax on dividend income above the allowance are 7.5% for dividend income falling within the basic rate band, 32.5% for dividend income falling within the higher rate band, and 38.1% for dividend income falling within the additional rate band. A zero rate of income tax applies to dividends covered by the allowance. If your income is likely to be significantly less in 2021/22 than it was in 2020/21, you can apply to reduce your payments on account (POAs). This can help with cash flow, but note that if your POAs are reduced by too much, interest may accrue.

High income child benefit charge

Are you affected by the withdrawal of child benefit where income exceeds £50,000? The limit has not increased since its introduction in 2013, meaning more and more families have been caught due to inflationary increases in earnings. Can you mitigate the impact by making increased pension contributions or donating via gift aid? The HICBC applies where the benefit claimant, or their partner, has annual adjusted net income of £50,000 or more. The full amount of child benefit is clawed-back if the higher earner's annual adjusted net income is £60,000 or more.

Many people have decided it is simpler not to claim child benefit at all, rather than getting involved with the imposition of a tax charge on the higher earner however, this approach can cause some future problems for both parent and child. If you are a non-working parent who doesn't claim child benefit, you won't receive national insurance credits for the period during which you don't pay either Class 1 or Class 2 NIC, and your child is aged under 12 years. This leaves a gap in your NI record, and on reaching state retirement age you will receive a smaller state retirement pension.

If child benefit is never claimed in respect of the child, once he or she reaches 15 years and nine months, no UK national insurance number will be issued. He or she will need to apply to the DWP for a NI number in order to work, open an ISA account, or receive a student loan. To get around these issues you are able to apply for child benefit but tick the box to receive a nil payment. You can reverse this opt-out at any time, either using an online form, or by phone or post. It is important though that your initial child benefit claim is made as soon as possible, as it can only be backdated for up to three months.

Property income

Since 6 April 2017 landlords have had the choice to use fixed rates per business mile to calculate allowable deductions for motoring expenses which can be used instead of deducting actual running costs and claiming capital allowances. We can check whether a fixed rate expense claim is likely to be beneficial for you, should you wish.

There is a restriction, phased in over the last four years, to the amount of finance costs (i.e. mortgage interest) that can be deducted from rental income on residential property, although this excludes furnished holiday lets (FHLs). For 2020/21 and future years, no finance costs will be relieved against rental profits, and relief will only be given as a 20% tax reducer.

The rent-a-room scheme lets you earn up to a threshold of £7,500 per year tax-free from letting out furnished accommodation in your home. This is halved if you share the income with your partner or someone else.

Although not appropriate for all, some taxpayers may find it is advantageous to run their property business through a limited company, which allows the continued deduction of finance costs along with other potential benefits. If your property is intended to be used as a FHL, and therefore excluded from the interest restriction, then it is important to check that the relevant conditions have been met to ensure your property qualifies as intended.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Capital gains tax

Have you utilised your annual exemption of £12,300 for 2020/21? It can't be carried forward but planning such as spousal transfers can help ensure that annual exemptions and basic rate bands are utilised to minimise the overall CGT liability.

Don't ignore any assets (perhaps shares) that have become worthless, as it is possible to make a 'negligible value' claim creating a loss which can be set off against other capital gains or carried forward and used against future capital gains. In certain circumstances the loss can be claimed against your income. Consider the timing of your disposals carefully, especially if your income will change significantly between tax years. This is because capital gains are taxed as the top slice of your income and currently charged at either 10% for gains within the basic rate or 20% for gains within the higher rate.

Gains on residential properties that do not qualify for principal private residence (PPR) relief and gains on carried interests are still chargeable at 18% or 28%.

PPR relief can exempt all or part of a gain which arises on a property that has been used as your only or main residence. If you have more than one main residence then you may be able to nominate one to qualify for the relief. Therefore, if you have acquired a second home within the last two years ensure you make a main residence election, it can be varied at a later date but if you miss the deadline (two years after the point at which you start to occupy more than one residence) a late election is unlikely to be accepted by HMRC and may result in a higher CGT liability.

Since 6 April 2020, the final period during which relief is always available on a property that has been your main home at some point, has reduced to nine months. From the same date, 'letting relief' only applies when the owner is in occupation of the property along with the tenant, effectively abolishing the relief for most people. It continues to be important to keep careful records of periods of occupation and lettings. Other changes to the main residence relief rules also took effect from 6 April 2020 including the way in which spouse transfers are treated.

Non-resident CGT (NRCGT) applies when a non UK resident disposes of UK land and buildings. A NRCGT return - and any tax payable - is due 30 days from completion.

The Government has also introduced a 30 day payment window (from completion) for payment of CGT on all disposals of UK residential property (i.e. not just for non-residents) from April 2020. The legislation captures all disposals, with the exception of disposals at nil gain/ nil loss between spouses and the grant of a lease to an unconnected person for no premium.

If at completion it is 'reasonable' to assume that a relief for CGT will apply (such as principal private residence relief, holdover relief or rollover relief) then the gain can be calculated on that basis and no return needs to be made provided that no tax is due.

Losses brought forward from previous years and losses reported prior to completion can be deducted when arriving at the 'best estimate' on which tax is payable. However, losses realised after the date of the conveyance cannot be offset. There is no requirement to make a return where a loss arises. However, where a return is completed the loss can then be set against further UK residential property disposals in the year where a gain has been made. Losses and annual exemptions can be used in the most tax efficient way and so may be reallocated when completing your self-assessment return.

A UK land return will need to be made for each UK residential property disposal, unless the completions occur on the same day in which case they can all be reported on the same return.

A self-assessment tax return will continue to be required in the normal way – i.e. the disposal must be reported on the CGT pages and any CGT already paid will be deducted from the liability. If you are likely to make gains on disposals of UK property, please speak to your usual PKF Francis Clark contact to discuss whether there are any ways to mitigate the CGT due and to ensure you don't incur penalties for missing the extremely tight return deadline.

Individual savings accounts

Ensure you use your ISA allowance each year. The allowance was £20,000 for 2020/21. Up to £9,000 (for 2020/21) can be invested in a junior ISA, for children who do not have a child trust fund. Children are able to have one cash junior ISA and one stocks and shares junior ISA at any time. Anyone can invest in a junior ISA (not just parents) on behalf of a child.

The help to buy ISA closed to new accounts at midnight on 30 November 2019. If you have already opened a help to buy ISA (or did so before 30 November 2019), you will be able to continue saving into your account until 30 November 2029, with a further 12 months to claim your bonus until 1 December 2030.

The Government will provide a top-up of 25% of savings up to a maximum monthly savings amount of £200, and the total bonus available will be capped at £3,000 on £12,000 of savings. It was possible to deposit an additional £1,000 when the account is first opened and there is no limit to how long the account may remain open. The interest on the account and the bonus will be tax-free. The bonus will be paid at the time of completion of the purchase of the property provided the property is worth a maximum of £450,000 in London and £250,000 elsewhere in the UK.

The Government lifetime ISA (LISA) commenced on 6 April 2017. Individuals aged between 18 and 40 can save up to £4,000 per tax year into a LISA and receive a 25% bonus from the Government at the end of the year. Contributions can continue to be made with the bonus paid, up to the age of 50. Funds, including the Government bonus, can be used to buy a first home up to the value of £450,000 at any time from 12 months after opening the account, and can be withdrawn from age 60 for use in retirement. If you already have a help to buy ISA, you can transfer those savings into a LISA, or continue saving into both, however, you will only be able to use the bonus from one of the ISAs to buy a house.

Tax efficient investments

Investing in EIS shares gives you income tax relief at 30% on up to £1m invested. Any gain on sale of the EIS shares is exempt from CGT provided the EIS shares are held for at least three years and the qualifying conditions continue to be met. A CGT deferral is also available which can defer the gain on the disposal of any asset however, any gains deferred will usually come back into charge when the EIS shares are sold. Your investment will also be free of inheritance tax (IHT) after two years. The investment limit rises to £2m for investments in knowledge intensive companies.

Investing in venture capital trusts (VCTs) is similar. Income tax relief of 30% is available on investments up to £200,000 if the shares are owned for at least five years. Any gain made on the sale of the VCT shares (up to a maximum of £200,000) is exempt from CGT regardless of how long the shares have been owned. In addition, dividend income generated from the first £200,000 of investment is tax free.

Investments in SEIS shares give a 50% income tax reduction and provide a CGT exemption for investments of up to £100,000 a year when the SEIS shares are held for three years. You can also carry back contributions to the 2019/20 tax year, to mitigate tax at the 18% and 28% rates if necessary. The SEIS shares themselves are also exempt from CGT provided they are held for at least three years. These investments can be useful as an alternative to investing in pension funds where the maximum has been reached, however they do tend to be higher risk investments and are therefore only suitable for experienced investors.

Should you require further information on any of the investments discussed, please speak to your usual Francis Clark Financial Planning contact or your financial planner.

If you would like to speak to someone about your options, we would be pleased to put you in contact with our colleagues in Francis Clark Financial Planning.

Pension contributions

The maximum annual tax relief available for contributions into a pension scheme is the lower of £40,000 the annual allowance (AA) or 100% of relevant earnings. For higher earners the AA may be restricted. From 2020/21, for every £2 of 'adjusted income' above £240,000 p.a. (gross income including pre-pension contribution earnings, including savings and pension income as well as the value of your employer's pension contributions), £1 of AA will be lost. The maximum reduction is currently £36,000 meaning that anyone with adjusted income of over £312,000 will have their AA capped at £4,000. If you have earnings of £200,000 p.a. after pension contributions (known as 'threshold income') you will not be affected by this tapering.

You can invest up to £2,880 net (£3,600 gross) in a pension even if you don't have any relevant earnings. This can be a great way of parents saving for their children. Pension contributions from your employer (or personal company) are a tax free benefit and a deductible expense. If making a personal contribution instead, this could be done by way of salary sacrifice, this can help save on income tax and NIC which would have been due if the sum was paid as salary.

Individuals can claim relief from income tax for contributions to personal pension schemes, although limits are placed on the sums that may be invested and receive tax relief. Both the AA and lifetime allowance (LA) for pension savings have been reducing in recent years, although the policy has recently changed so the LA will now increase in line with inflation each year, increasing from £1.055m to £1.073m in 2020/21, but there are means of carrying forward previous years' unused AAs and securing previous LAs.

If you are affected by the tapered AA, you will still be able to carry forward your unused AA from the previous three tax years and if your income subsequently drops to below the threshold you will be restored to the normal AA for that tax year. If you would like to speak to someone about your options, we would be pleased to put you in contact with our colleagues in Francis Clark Financial Planning.

You must have been a member of a registered pension scheme in those tax previous tax years in order to claim any unused allowances. Remember, the annual allowance drops to £4,000 per year in the first full tax year after you take taxable money from your pension pot. You should take advice to ensure that you have maximised the contributions you can make, without triggering any clawback charges or exceeding the £1.0731m 2020/21 lifetime allowance.

Inheritance tax

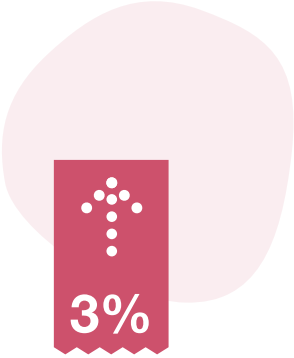
It is extremely important to have a current, valid and up-to-date Will. Marriage, divorce and material changes in assets held should all prompt a consideration of your Will, to ensure it continues to meet your wishes for your family's future. Some useful IHT exemptions are set out below -

- *The annual exemption is £3,000 per donor per year*
- *Gifts between spouses are exempt transfers (though the exemption is limited to £325,000 when the donee is non-domiciled)*
- *Small gifts of up to £250 per tax year per recipient are exempt*
- *Gifts of surplus income on a regular basis are exempt if certain conditions are met*
- *Wedding gifts are exempt up to certain limits*
- *Gifts to charity are exempt*
- *Gifts for family maintenance may be exempt*
- *If 10% of your chargeable estate is left to charity, your IHT rate can be reduced to 36%*
- *A gift to an individual is exempt from IHT if the donor survives for seven years from the date of the gift*

Therefore, consider making gifts while asset values are low, although there may be CGT implications the CGT payable on a gain now is likely to be considerably less than the IHT payable on the future value of the asset. IHT efficient investments or financial products are available which can substantially reduce your IHT exposure.

Business assets currently qualify for 100% relief from IHT, normally after a two year ownership period. Let agricultural land and buildings (including farmhouses and cottages) can also have favoured status for IHT. The residence nil rate band (RNRB) adds further complexity to the IHT rules. For 2020/21, the RNRB is £175,000, and is likely to remain at that level going forward. This relief is worth £140,000 to a married couple, in terms of reducing the IHT payable and is therefore too valuable to be ignored.

Seek advice regarding whether you are eligible for this and if not what can be done to enable you to qualify. Your Will may need to be reviewed to make sure your executors can claim the relief. Setting up lifetime trusts can also still be a useful IHT planning tool for reducing your estate whilst maintaining control over assets.



Business owners

Capital/chargeable gains

Business asset disposal relief (BADR, previously known as entrepreneurs' relief) is a preferential rate of CGT that is available on capital gains made on the disposal of trading businesses. The preferential rate is currently 10% and it is available on gains of up to £1m during an individual's lifetime. Relief may also be claimed by trustees where an eligible beneficiary has an interest in settled property which includes the qualifying shares.

BADR is an important tax relief for any business owner contemplating the sale of a business in future. In view of potential changes to CGT rates in the Budget, shareholders who are considering an exit should seek early advice in relation to their shareholdings.

Capital allowances

The annual investment allowance (AIA) provides a 100% deduction for the cost of plant and machinery or integral features up to an annual limit. The annual limit was previously £200,000 however it increased to £1m for two years from 1 January 2019 to 31 December 2020, recently extended by the Government to 31 December 2021, after which it is expected to revert to £200,000. Where a business has an accounting period that straddles the date of change the allowances have to be apportioned on a time basis. Particular care will need to be taken for year ends which straddle 31 December 2021 as the allowance may be restricted. For expenditure in excess of the AIA, writing down allowances are available at 18% per annum on plant and machinery and 6% on integral features. It is therefore beneficial to plan the timing of expenditure to fall within the AIA otherwise tax relief will be far slower.

Cars do not attract AIA but are subject to an annual writing down allowance at 18% or, for cars with CO_2 emissions in excess of 110g/km, at 6%. A 100% first year allowance (FYA) is available (in addition to AIA) for new low emissions vehicles with CO_2 emissions of 50g/km or less, until 5 April 2021.

Employment incentives

EMI options are a very attractive way of providing incentives to your employees, especially now that the Government has abolished the previously favourable 'employee shareholder status' for all arrangements entered into on or after 1 December 2016.

Stamp duty land tax

Additional 3% rate

An additional 3% (4% in Scotland and Wales) charge applies on top of the normal stamp duty land tax (SDLT) rates on purchases of additional residential properties of £40,000 or more. The additional rate will apply if, at the date of the proposed acquisition, the individual owns a major interest in another dwelling with a market value of £40,000 or more. The additional rates won't apply if the purchased dwelling replaces the purchaser's only or main residence, provided certain conditions are met. The purchase of two or more dwellings will also trigger the additional 3% rate. However, there is an exception for additional dwellings that are 'subsidiary' to the main dwelling. This exception was introduced to prevent acquisitions of residential properties with 'granny flats' or annexes being caught by the additional rates.

The Government has introduced an extra 'surcharge' of 2% which will apply from 1 April 2021, to non-resident purchasers who buy property in England and Northern Ireland (Scotland has introduced a similar surcharge for land and building transaction tax purposes, and Wales may follow suit). Where contracts were exchanged before 11 March 2020 but complete or are substantially performed after 1 April 2021, or where a contract is substantially performed on or before 31 March 2021 but not completed until 1 April 2021 or later, transitional rules may apply.

Watch out for joint purchases! It only takes one purchaser to be subject to the additional 3% rate or the 2% non-resident surcharge to bring the whole transaction into the scope of these rules. In other words the additional rates will apply to the total purchase cost for all owners if any one of them would be liable to the additional rates. It's also important to bear in mind that spouses or civil partners are treated as joint purchasers. The new rules are complex and should be considered if you are planning to purchase residential property as careful planning can result in significant SDLT savings.

If you have any questions about this or any other tax planning matter, please do not hesitate to contact your usual PKF Francis Clark contact.