PKF SMITH COOPER

YEAR-END TAX PLANNING

TAKING ADVANTAGE OF REMAINING RELIEFS, ALLOWANCES AND EXEMPTIONS

LOCAL KNOWLEDGE, GLOBAL EXPERTISE

Contents

Summary

With the self-assessment tax year end approaching in April 2021, there are several tax planning opportunities you may wish to consider in order to take advantage of any remaining reliefs, allowances and exemptions, and ensure your finances remain tax-efficient.

Should you wish to discuss any of the items detailed below further, please do not hesitate to contact a member of our dedicated tax team.

Personal Allowance

Are you utilising your personal allowance efficiently?

The personal allowance for the 2020/21 tax year is £12,500 which is available to all individuals whose income is less than £100,000 in the tax year. The allowance cannot be carried forward, so it is important to utilise this where possible.

If your income is in excess of £100,000, the personal allowance is reduced by £1 for every £2 of income received until the personal allowance is reduced to nil once income exceeds £125,000.

- You should consider making use of lower rate tax bands, and review tax implications of transferring income producing assets to your spouse or children.
- Spouses may be able to transfer £1,250 of their personal allowance, which gives a saving of £250. To benefit as a couple, the lower earner must have an income of £12,500 or less, and the higher earner must be a basic rate taxpayer.
- If your income is around the £100k mark, consider making pension contributions or gift aid donations to retain your personal allowance, or utilising an ISA to reduce your taxable investment income.

Future tax planning

At Budget 2021, the Chancellor has confirmed that the personal allowance will increase by CPI (0.5%) for 2021/22 to £12,570. For 2021/22 there will be no personal allowance where adjusted net income exceeds £125,140.

The Chancellor announced that the personal allowance will be frozen at £12,570 for the tax years 2022/23 to 2025/26.

Dividend Allowance

Have you utilised your annual £2,000 tax free dividend allowance?

Dividends received over and above the £2,000 tax free rate are subject to their own tax rate bands:

- 7.5% within the basic rate band
- 32.5% within the higher rate band
- 38.1% within the additional rate band

Savings Income

The first £1,000 of savings income (other than dividends) is tax free.

The savings nil rate band is not transferable between spouses, so it is important to ensure that bank accounts are held to maximise the nil rate band.

Higher rate taxpayers have a savings nil rate band of £500.

National Insurance Contributions

Check whether you are you paying enough National Insurance contributions (NIC) to get a qualifying year in order to be entitled to your state pension.

You can pay a salary of up £8,788 for 2020/21 to contribute to your NIC without incurring any employer or employee Class 1 NIC charges.

You may also be paying too much NIC if you are employed and self-employed, or have more than one employment, so it is important to check your contributions.

Annual Pension Allowance

Are you utilising your pension contributions annual allowance of £40,000 per year?

Personal contributions extend your tax rate bands by the gross amount of your pension contribution, but this is only effective if you're a higher rate taxpayer. Pension contributions through salary sacrifice may be more tax effective for basic rate taxpayers and for employers.

Individuals with an adjusted income of over £240,000 are at risk of their annual allowance being tapered down to a minimum allowance of £4,000, which could result in potential tax charges for excess pension contributions. Personal, employee and employer contributions count towards the annual allowance, not just personal and employee contributions.

There may be scope to carry forward and utilise any unused annual allowances from the previous 3 tax years before the end of the current year if considering a lump sum pension contribution.

Trading and Property Allowance

Do you have rental income, self-employment or a profitable pastime with minimal expenses?

If you have trading income from self-employment or providing casual services (such as babysitting and gardening) with minimal expenses, you can use the £1,000 trading allowance to reduce your potential tax liability.

If you have rental income from land or property with minimal expenses, you can use the £1,000 property allowance to reduce your potential tax liability.

If you have both types of income, you will get a £1,000 annual allowance for each.

Capital Gains Tax Annual Exemption

You only have to pay CGT on your overall gains above the annual exempt amount, which is currently £12,300 for individuals.

This annual exemption cannot be carried forward so will be lost if not used.

If you are considering selling a residential property, CGT returns will need submitting and the CGT liability paying within 30 days of the date of completion so it is vital to ensure that you gather information ahead of time ready to be able to comply with this tight deadline.

The period of deemed qualifying occupation for principle private residence relief has been reduced from the final 18 months to the final 9 months of ownership for property disposals where the property has at some point been the seller's main residence.

Lettings relief was abolished from April 2020 except in circumstances where the seller lived in the property with the tenants.

Inheritance Tax Annual Exemption

Gifts of up to £3,000 per year can be made on an IHT free basis

You should consider making gifts to utilise the annual allowances ahead of the end of the tax year. This limit increases to £6,000 if the previous year's annual exemption has not been used. A married couple can therefore make an IHT exempt gift of up to £12,000 if exemptions for previous years have not been utilised.

In addition, there is a small gifts allowance of £250, which allows gifts of up to £250 to be made without IHT consequences. The £250 limit is per recipient per tax year.

Tax Efficient Investments

There are various tax efficient investment opportunities which can help minimise your tax liabilities throughout the financial year, including:

- Individual savings accounts (ISAs)
- Self-invested personal pensions (SIPPs)
- Venture capital trusts (VCTs)
- Business property relief (BPR)
- Enterprise Investment Scheme (EIS)
- Seed Enterprise Investment Scheme (SEIS)

Some tax efficient investments have a higher risk than others, so it is important that any investments match your personal circumstances.

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