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Year End Tax Planning Guide

Putting your tax and finances through a yearly fitness check is always a good idea. Best policy means doing it before the tax year ends on 5 April 2020. As you take stock of how best to plan the future for you, your family and your business, there may be action you can take now to structure your affairs more efficiently.

Please do contact us for an in-depth discussion. We can advise on how best to keep open the choices that are important to you, at the same time as minimising tax liability.

Throughout this publication, the term spouse includes a registered civil partner. We have used the rates and allowances for 2019/20.

Tax rates and bands

With devolved powers, tax bands and rates can now vary across the UK.

For England, Northern Ireland and Wales, further information can be found here **bit.ly/34ISZcm**.

For Scotland, please refer here **bit.ly/2s6t2pQ.**

Although the Welsh Government now has powers to set different rates of income tax, it has said that there will be no change until at least May 2021.

Additional rate tax is payable on taxable income over £150,000 for all UK residents. It is paid at 46% in Scotland ('top rate' tax) and 45% in the rest of the UK.

Investments and savings

Valuable tax relief can be produced by investing through venture capital schemes, the most significant of which is investment in Venture Capital Trusts. More details can be found here **bit.ly/36dDWsF**. Do please talk to us about the potential of such schemes.

ISAs are a popular investment. Savings held within an ISA are free of income tax and capital gains tax. Investment must be made by 5 April 2020 to take advantage of limits for 2019/20. The maximum you can save is £20,000 in 2019/20.

Tip

ISA investment limits can't be carried into future tax years, so check that all family members maximise entitlement each year.

Capital gains tax property pitfall

Capital gains tax (CGT) does not affect the sale of a main residence if you live there throughout all your time of ownership. But the reality of property ownership is not always this simple, and imminent change to the rules brings more points to watch.

Change to the rules on 'final period exemption' will bring higher numbers of property transactions within the scope of CGT. This relief helps those buying a new property intended as a main residence, when delay affects the sale of the original main residence. Currently exemption is given for the last 18 months of ownership, regardless of whether the owner lives there, if, at some point during ownership, the property was occupied as the main residence.

From 6 April 2020, the period is cut to nine months. This is expected to widen the CGT net considerably. We recommend that from 6 April, anyone buying a new main residence before sale of a previous main residence, needs to consider the CGT consequences of failure to sell within the nine-month window.

Key allowances

- **Personal Allowance** (PA) is £12,500 in 2019/20
  PA is restricted where adjusted net income is more than £100,000. Adjusted net income is total taxable income before personal allowances, but after certain deductions, such as Gift Aid payments.
  The restriction means that for every £2 of income over £100,000, PA is reduced by £1. Where adjusted net income is £125,000 or more, PA will be lost completely.
- **Savings Allowance** (SA)
  The SA means a certain amount of savings income, such as bank and building society interest, can be earned tax free. SA varies, depending on marginal rates of tax:
- SA for basic rate taxpayers £1,000
- SA for higher rate taxpayers £500
- SA for additional rate taxpayers £0.
- **Dividend Allowance** (DA) is available to all taxpayers
  With DA, the first £2,000 of dividend income is charged to tax at 0%. Thereafter, basic rate taxpayers pay tax at 7.5% on dividend income; higher rate taxpayers pay at 32.5%; and additional rate taxpayers pay at 38.1%.
- **Capital gains tax** annual exempt amount £12,000. Additionally, assets can usually be transferred between spouses without tax.

Tip: retaining the personal allowance

- A charitable donation under the Gift Aid rules can reduce adjusted net income, helping you keep the PA. It's usually best for the higher rate taxpayer in a couple to make the gift.
- Pension planning can similarly help minimise loss of the PA. Consider whether you have scope to make a personal pension contribution by 5 April.

Tax efficient family finances

Each spouse is taxed separately, with their own allowances, tax rates and bands. For tax purposes, looking at household income in the round will enhance efficiency.

Aim to distribute income between spouses so that personal allowances, Savings Allowance (SA) and Dividend Allowance are used fully. This will also lessen the impact of higher and additional rates of tax.

Savings income

Transfer of savings income can be beneficial where one spouse is a higher rate taxpayer, and the other pays at basic rate, enabling full use to be made of the SA available.

Tip: sharing savings income

Transferring just £1,000 savings income from a higher rate taxpayer who has used their SA in full, to a basic rate spouse, with no other savings income, could save up to £400 p.a.

Allowances

Allowances can't normally be transferred between spouses, except for the blind person's allowance, and, in certain circumstances, £1,250 of the Personal Allowance (PA). This is the 'transferable tax allowance for married couples and civil partners' - often called the 'marriage allowance'. Transfer can be useful in circumstances where neither is a higher rate taxpayer and one spouse hasn't fully used their PA. The detail of these particular rules makes it important to check that this transfer will work in your favour, and we are happy to advise further here.

Tip: working together

If you work for yourself, employing your spouse, or taking them into partnership, can redistribute income for maximum tax efficiency.

- This tactic can be helpful for trades, professions or property investment businesses generating rental income.
- Always make sure wages are actually paid: book-keeping entries alone aren't enough.
- Any payments should be commercially justifiable.

Assets

You may be able to consider gifting assets between you and your spouse to distribute income more evenly; but gifts must be outright and unconditional.

Any income arising from assets jointly owned by spouses is usually assumed to be shared equally for tax purposes. This is the case even if an asset is owned in unequal shares – unless you make an election to split the income in proportion to ownership.

One exception to this is dividend income from jointly-owned shares in 'close' companies. Most small, family-owned, private companies fall into this category. Such dividend income is split according to actual ownership of the shares. This means that if, say, one spouse is entitled to 95% of the income from jointly-owned shares, they pay tax on 95% of the dividends from the shares.

Capital gains tax

Higher rate taxpayers pay more CGT, making it important which of you disposes of an asset. Each spouse has a CGT annual exempt amount. You can usually transfer assets between you and your spouse at no gain/no loss – without an immediate tax charge.

So, if you own an asset, which is to be sold, in your sole name, and you've already used your CGT annual exemption, consider transferring it to your spouse. If they haven't yet used their annual exemption, or pay tax at a lower rate, it may be more efficient for them to sell, rather than you.

Please ask us for further advice to make quite sure such transfers will be effective for tax purposes.

Helping the next generation

Allowances and rate bands for children

When it comes to tax, children are treated independently, having their own personal allowance, as well as their own savings and basic rate tax band. They also have their own capital gains tax annual exemption.

Who helps?

Transfer of an income-producing asset to a child can be beneficial, but when your children are under 18 years old, a parent-child transfer isn't usually the most tax efficient route. If annual income from this source is more than £100 gross, it's still the parent who gets the tax bill. But if the gift is made by someone else - say, grandparents or other relatives, income arising is taxed on the child. Where there is scope within the family to divert income to a child like this, it could be the optimal way to pass tax free income to a child.

Two-sided equation

Helping the next generation can bring tax advantages both ways. For the giver, it can form part of inheritance tax (IHT) planning, with some lifetime gifts across the generations being exempt from IHT. There is, for example, an annual exemption allowing you to make gifts to the value of £3,000 in any tax year. These are then ignored when valuing your estate on death. If unused, the annual exemption can be carried forward into the next tax year: but if not used in this year, the brought forward allowance is lost. Gifts made out of income, rather than capital, are also free of IHT. To qualify, these must not diminish your normal standard of living, and should be something you provide regularly. Taking something from surplus income and putting it into savings for a grandchild could be one way to take advantage of this. It's always advisable to discuss the rules in detail first, so do please talk to us for more advice in this area.

Tax free saving

There are opportunities to make tax free savings for your children. Since the 2011 closure of Child Trust Fund (CTF) investments to new applicants, the Junior ISA is a main route here.

Children who are UK resident, under the age of 18, and do not have a CTF, are eligible for a Junior ISA. Both Junior ISAs and CTFs give parents, other family members or friends, the opportunity to invest a certain amount in a tax free fund each year. The limit is £4,368 in 2019/20. As with CTFs, there is no access to the funds until the child reaches age 18, although they can take control of the account at age 16. The government does not contribute to Junior ISAs.

2020 is a milestone for CTFs, with the first CTFs maturing as beneficiaries start to reach age 18. New regulation is forthcoming from 6 April 2020, so that the tax-advantaged status of the investment is retained when it matures. This will allow CTF account holders to transfer the investments to an ISA of their choice when the CTF matures, without prejudice to their annual ISA subscription limit.

Tip: 'lost' Child Trust Funds

Where regular contributions have been made, CTFs may now form a significant investment. More than 1 million CTF accounts, however, are thought to be 'dormant' – holding just the initial contributions made by the government. If you think your child may have a CTF, but can't remember more details, you can find out using links from this page **bit.ly/2s8ceyz.**

Child Benefit: still a benefit to high earners?

In a word, yes. But only with attention to detail.

Issues with Child Benefit made news this year, and the Office of Tax Simplification recently recommended ways that Child Benefit rules could be made to work better for families across the board.

High Income Child Benefit Charge

For high earners, the key issue is High Income Child Benefit Charge (HICBC). This applies if you, or your partner, have more than £50,000 adjusted net income in the tax year and:

- you or your partner receive Child Benefit or
- someone else gets Child Benefit for a child living with you, if they contribute at least an equal amount towards the child's keep.

If both partners have income above this level, the charge applies to the one with the higher income. Adjusted net income means total taxable income before personal allowances, but after deductions such as Gift Aid payments.

The charge claws back 1% of the full Child Benefit award for every £100 of income between £50,000 and £60,000. Where income is more than £60,000, effectively all Child Benefit is lost. It is important to be aware that it's the taxpayer's responsibility to notify HMRC of liability to HICBC. HMRC does not automatically initiate action.

Tip

Appropriate strategies can help keep the income of each parent below the point at which HICBC begins to bite. Where both parents have income of £50,000, for example, it may be possible to retain full Child Benefit payment for the household; but if income of £100,000 is in one name, all Child Benefit is lost.

Unintended consequences

It's not just claiming Child Benefit that can create problems for higher earners. So can failing to claim.

Failure to claim means National Insurance credits, which count towards State Pension, may be lost. Claiming Child Benefit is also the trigger for the eventual issue of a National Insurance number (NINO) before a child turns 16.

Tip: maximise benefit for high earners

- The claim isn't just about receiving payment.
- Consider a Child Benefit claim, whatever your income level.
- This gives National Insurance credits until the child is 12.
- The child automatically receives their NINO.
- You can then elect not to receive Child Benefit payments if you or your partner prefer not to pay the HICBC.

You're giving. Your choices.

'Today, charitable tax breaks are worth a total of around £5bn a year ... Yet the current system of Gift Aid sees hundreds of millions being lost every year. That has to change'.

This was the verdict from a recent Charity Tax Commission (CTC) report on how tax could facilitate a 'new wave of philanthropy'. It's not yet known which proposals the government will action, but the CTC has suggested significant revisions to the Gift Aid rules, and change could be in the air.

Under current rules, a donation to charity under the Gift Aid scheme means the charity can claim back 20% basic rate tax on the donation. For every £1 given, the government adds a 25p top up. Tax relief against 2019/20 income is also possible for charitable donations made between 6 April 2020 and 31 January 2021, providing payment is made before the 2019/20 tax return is filed.

Top earners

Higher (40%) and additional rate (45%) taxpayers can currently reclaim the difference between the higher rate or additional rate paid, and basic rate on the donation. The principle is the same for Scottish taxpayers, for whom different tax rates apply.

Higher rate taxpayer: example

Felicity pays tax at 40% as a higher rate taxpayer. She gives £100 to a medical charity

The charity receives a £25 refund of Felicity's tax from the government, thus receiving funds of £125 in total

Felicity can claim back £25 (£125 x 20% - the difference between higher and basic rate tax). This cuts the net cost of her gift to £75.

The CTC suggests higher rate taxpayers should be empowered to pass this tax 'saving' to their chosen charity, by automatically donating the value of the additional tax relief to charity unless the donor opts out. This could raise a further £250 million for charity annually.

Tip

Many higher rate donors currently fail to claim the refund to which they're entitled. If you are eligible, make sure you claim, and remember to keep a record of your giving to facilitate this. You may then like to increase your giving to match the tax relief claimed.

The CTC also suggests simplifying the form-filling side of Gift Aid, by creating a central database, the Universal Gift Aid Declaration Database. This could allow taxpayers to complete a single, enduring, universal declaration covering all subsequent charitable gifts, rather than having to fill in multiple Gift Aid declarations.

Property tax changes

Tax relief for residential landlords

Tax relief has changed significantly, with reductions in the deductibility of finance costs phased in from 6 April 2017. Costs affected include mortgage interest, interest on loans to buy furnishings, and fees connected with taking out and repaying loans and mortgages. Going forwards, landlords get tax relief for finance costs via basic rate (20%) reduction from their income tax liability.

In 2019/20, only 25% of finance costs are deductible from rental income, and the change is fully effective from 6 April 2020, when 0% of finance costs are deductible from rental income and all relief for financing costs is given by way of basic rate reduction. As is so often the case with tax, this is more complex than it sounds, and there can be significant restrictions on the use of this basic rate credit.

Tips

The change may push some taxpayers into higher rate tax brackets. Tips to minimise the impact of change include:

- transferring property to a lower income spouse, thus taking advantage of any basic rate band available. There are multiple factors to take into consideration here, including whether a property is mortgaged, and possible stamp duty implications
- using a company to hold new property purchases - the restriction doesn't apply to companies
- diversifying into furnished holiday lettings, to which the restriction doesn't apply.

We can help by reviewing your circumstances and advising on alternative strategies.

Changes from April 2020: property disposals

If you are disposing of property on or after 6 April 2020, there are new rules where a property has generated rental income and has also been a main residence. Lettings relief will no longer be available in such cases, unless the owner has shared occupancy with the tenant. Reduction to the final period exemption also renders the private residence rules less favourable (see front page article).

Reporting and payment of CGT is being considerably accelerated. From 6 April 2020, CGT due on disposal of residential property should be reported and paid within 30 days of completion. Please notify us as soon as possible if you dispose of residential property, unless it is wholly covered by the private residence exemption.

Pensions: use the tax rules to advantage

Pensions provide significant planning opportunities. But as high-profile news on NHS pensions made plain this year, it's important that the rules work in your favour.

The Annual Allowance (AA) is the most you can contribute to a pension during a tax year and still get tax relief. It is currently £40,000. Where this is exceeded, there may be an AA clawback charge. AA can be lower if you've flexibly accessed a pension pot, or have a high income.

Tip

There may be unused AA from the three previous years, which, if used in 2019/20, gives scope for significant pension contribution without a charge. We are happy to advise here.

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