

NEW TAX YEAR CHANGES 2020/21



The new 2020/21 tax year commenced on 6 April 2020. We have compiled this Special Issue Broadcast to highlight the main tax changes affecting individuals and businesses.

This Broadcast covers the following areas:

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 - Personal Allowances
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 - Income Tax Deductions
 - ISA's
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- Electric car vs Petrol and Hybrid Benefit In Kind (BIK) example
- Business Tax
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 - Deferred changes
 - Corporation Tax / R&D / IR35 / MTD

Personal Allowances

The Personal Allowance – the amount you can earn before paying any Income Tax – remains at £12,500 for the 2020/21 tax year. The threshold for paying the Higher Rate of Income Tax (which is 40%) also remains at £50,000. This amount includes the Personal Allowance.

Dividend Allowance

The tax-free Dividend Allowance for the 2020/21 tax year remains at £2,000.

Capital Gains Tax

- The Capital Gains Tax annual exempt amount for individuals increases to £12,300 for the 2020/21 tax year (the 2019/20 tax year allowance was £12,000).
- UK residents must report and pay any capital gains tax due on sale of UK residential property within 30 days, with some exceptions, e.g. when gain fully covered by PPR relief.
- CGT lettings relief has been restricted so that it will only apply where the owner of the property is in shared occupancy with the tenant.
- Final period CGT exemption for private residence relief reduced from 18 months to 9 months.
- CGT relief for loans to traders extended to loans made to individuals, partnerships and companies located outside the UK, and share loss relief extended to newly issued shares in small and medium unlisted trading companies carrying on business outside the UK (with retrospective effect from 24 January 2019).

Personal Pensions

The tax-free amount you can pay into a personal pension remains at £40,000 for the 2020/21 tax year. Pensions annual allowance thresholds increased from £110,000 and £150,000 to £200,000 and £240,000, and minimum annual allowance reduced from £10,000 to £4,000. The lifetime allowance for pension savings increased from 6 April 2020 to £1,073,100 (from £1,055,000 in the 2019/20 tax year).

Entrepreneurs' Relief

From 6 April 2020 the Entrepreneurs' Relief lifetime allowance limit will be capped at £1 million. This is a significant reduction from the 2019/20 tax year when the limit was £10 million.

NIC Contributions

The start of the new tax year also brought changes to the national insurance contribution (NIC) threshold, which rose from £8,632 to £9,500. This gives the average full-time employee a £104 reduction in their tax bill, whilst the self-employed benefit from a £78 reduction in their tax bill.

Income Tax Deduction

The flat rate income tax deduction, which is available to employees to cover additional household expenses where employees work at home, has risen. This was set at a rate of £4 per week but rose to £6 per week from 6 April.

ISA's & Junior ISA's

You can invest up to £20,000 as an individual into your ISA account each year, with all proceeds being free of Income and Capital Gains Tax. For a married couple that is £40,000 that can be invested in a tax-free environment each year.

The Junior ISA limit has now increased from £4,368 to £9,000 per year, so plenty more scope than before to help the kids build up a deposit on a house, or to fund the University pot for example.

Company Cars, vans and fuel

For cars first registered from 6 April 2020, CO2 emissions will be subject to a more stringent test regime which is expected to lead to higher CO2 emissions figures for most cars. To adjust for this, company car tax rates for these cars will be reduced by two percentage points in 2020/21, compared to cars registered before 6 April 2020.

In respect of vehicles registered from 6 April 2020, the cleanest electric cars will be taxed at 0% of list price (reduced from 16% in 2019/20), rising to 37% for cars emitting 160g/km or more. Diesel supplement will be an additional 4% of list price (except for cars certified to the RDE2 standard).

The rate for ultra-low emission vehicles (CO2 emissions of up to 50g/km) will depend on the electric range of the vehicle.

HMRC has published a ready reckoner you can use to calculate your company car tax, which can be found [HERE](#).

Therefore, there are huge potential savings for company car drivers, if they select their car wisely. For example over a typical three-year agreement, the examples below show the difference in the monthly tax liability between Volkswagen's Golf petrol, hybrid and electric cars.

Volkswagen Golf GT, 1.5 TSI Evo 150ps DSG Auto 5d, 1498cc, CO₂118 g/km, Petrol

Value £26,825

BIK for 2020/21 (28% BIK) £7,511 Monthly Car Tax liability 40% £250

BIK for 2021/22 (29% BIK) £7,779 Monthly Car Tax liability 40% £259

BIK for 2022/23 (30% BIK) £8,048 Monthly Car Tax liability 40% £268

Volkswagen Golf GTE, 1.4 TSI BMT PHEV 204ps DSG Auto 5d, 1395cc, CO₂ 47 g/km, Hybrid

Value £33,760

BIK for 2020/21 (12% BIK) £4,051 Monthly Car Tax liability 40% £135

BIK for 2021/22 (13% BIK) £4,389 Monthly Car Tax liability 40% £146

BIK for 2022/23 (14% BIK) £4,726 Monthly Car Tax liability 40% £158

Volkswagen e-Golf, 5d Auto, Electric

Value £31,020

BIK for 2020/21 (0% BIK) £0 Monthly Car Tax liability 40% £0

BIK for 2021/22 (1% BIK) £310 Monthly Car Tax liability 40% £10

BIK for 2022/23 (2% BIK) £620 Monthly Car Tax liability 40% £21

In addition to much better BIK, until April 2021, the company gets 100% First Year Allowance tax deduction against profits if the CO2 emissions do not exceed 50g/km and the car/van is purchased new and unused. All other private vehicles are restricted to 18% or 6% per annum.

Vans & Fuel

The benefit in kind for private fuel provided in company cars or vans will be calculated at the relevant percentage x £24,500. The van benefit charge will increase to £3,490 and the fuel benefit charge for vans will increase to £666.

Auto-enrolment

There are no changes to the minimum amount you need to pay into your employee's auto-enrolment workplace pension. This means the total amount of employer and employee contributions remains a minimum of 8% of your employee's qualifying earnings. The table below illustrates the current auto-enrolment contribution allowances:

	TOTAL MINIMUM CONTRIBUTION	EMPLOYER MINIMUM CONTRIBUTION	STAFF CONTRIBUTE THE REMAINDER
CURRENT	8%	3%	Up to 5%

Annual Investment Allowance (AIA)

Companies will be able to claim £1 million as AIA for expenditure incurred between 1 January 2019 and 31 December 2020 on fixed assets such as plant and machinery. The allowance is expected to reduce to £200,000 on 1 January 2021.

Structures and buildings allowances

Effective from 1 April 2020 (for corporation tax purposes) and 6 April 2020 (for income tax purposes), the rate at which structures and buildings allowances (SBAs) are calculated on qualifying expenditure increases from 2% to 3%.

Changes that have now been deferred

- Reduction of corporation tax rate from 19% to 17% cancelled.
- SME research and development credit cap deferred until 1 April 2021.
- Introduction of off-payroll labour/IR35 reforms for private sector businesses deferred until 6 April 2021.
- Making Tax Digital: requirement to put in place digital links deferred until first VAT return period starting on or after 1 April 2021.

If you need further information surrounding any of these recent tax changes, please call us on **01753 888211** or email **info@nhllp.com** to discuss this further. We would be delighted to advise you on the best plan of action for your needs.