Broadcast

FACTSHEET: PERSONAL TAX PLANNING

SPECIAL ISSUE

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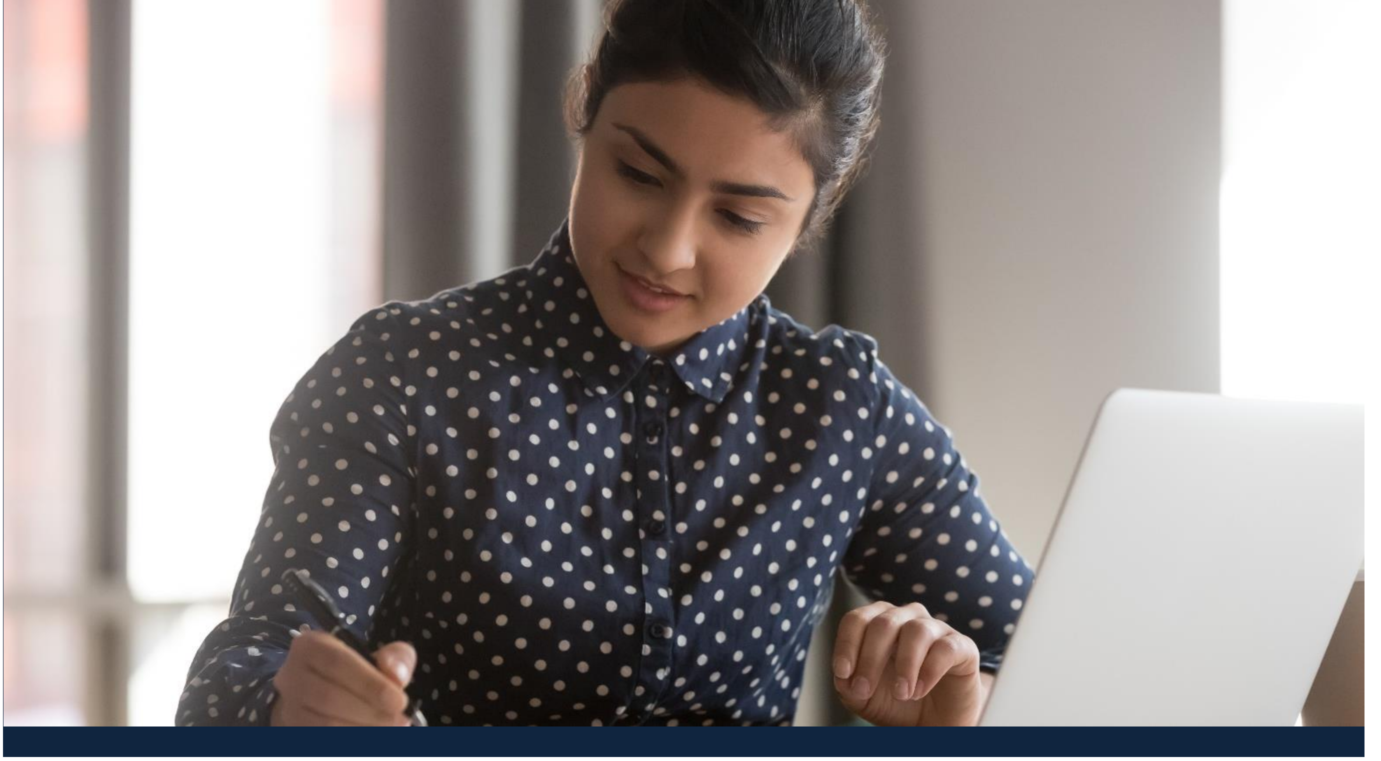
PERSONAL TAX PLANNING - OPPORTUNITIES TO SAVE TAX AND INCREASE NET WORTH



Some of the ideas shared in the following check list may provide you with tax saving opportunities if implemented before 5 April 2021. This year, more than at any previous time, we need to take advantage of savings as the COVID virus continues to wreak havoc on the UK economy.

Actions to take:

- Review the list
- Highlight those items that would seem to have relevance
- Call us so we can discuss what needs to be done to secure any tax saving benefits before 5 April 2021

Income Tax – avoiding higher rates of tax

You will no doubt be aware that the three rates of income tax are 20%, 40% and 45%. What you may not know is that your personal tax circumstances can boost these rates. For example, if your taxable income exceeds £100,000 you could lose your personal tax allowance and for 2020-21, this will increase the marginal rate of tax applied to earnings between £100,000 and £125,000 to 60%.

The following notes highlight some of the tax savings ideas that you may be able to consider.

- To lower the impact of higher rate tax (or marginal rates), consider sharing ownership of income producing assets with your spouse, especially if your spouse pays no income tax, or tax at lower rates.
- Similarly, consider sharing ownership of income producing assets with your adult children (over 18 years. Your children, whatever age, can earn up to £12,500 this tax year without paying income tax. Transfers of certain assets may create a CGT liability so planning is key.
- If you have a pension scheme take advice from your pension's advisor on the level of contribution you should make this year. The maximum you can pay in is £40,000 reduced to £4,000 for those on higher incomes. If applicable, you can use any unused relief in the previous three years.
- If you cash in part of your pension pot the amount you withdraw may be added to your total earnings. Be sure to take this into account as there may be additional tax to pay above any tax deducted by your pension pot manager.
- There are no limits to the amount of gift aid donations you can make. These contributions extend your basic rate tax band and are an effective strategy for avoiding the higher and marginal rates of income tax. Charitable donations are also one of the few remaining reliefs that you can carry back, in certain circumstances, to the previous tax year.
- You can transfer up to £1,250 of your personal allowance to your spouse if you don't earn enough to fully utilize this allowance against your own earnings. You can only do this if your spouse pays tax at no more than the basic rate (20%).
- If you are provided with a company car and your employer pays for your private fuel you should consider repaying this private fuel cost to your employer if the cost of the repayment is less than the tax you would have to pay on the car fuel benefit charge. To do this effectively you will need to calculate your annual private mileage.
- A further consideration for company car drivers is to discuss changing your vehicle for a lower CO_2 emissions model. The car benefits charge increases in direct proportion to these CO_2 ratings.
- Don't forget to use your ISA allowance. In this way you can invest up to £20,000 in the current tax year and any interest earned will be tax free.
- There are a number of specialist investments you can make that are qualifying deductions for income tax purposes. They include: the Enterprise Investment Scheme, investments in certain Social Enterprises, Seed Enterprise Investment Schemes and Venture Capital Trusts. Income tax relief varies between 30% and 50% of the qualifying investments. However, you will need to consider the commercial risks as well as the tax advantages.
- Don't forget that the State Pension is treated as taxable income for tax purposes. You are paid without deduction of tax. If your total income (including your State Pension) exceeds £12,500, this may produce unwelcome bills from the tax office at the end of the tax year.

Capital Gains Tax (CGT)

CGT is calculated at fixed rates on non-residential property disposals (10% or 20%) but CGT payable on the sale of a second home will be either 18% or 28%.

There are certain assets that you can sell without paying CGT. They include:

- The sale of any chargeable asset, like shares or a second home, if the overall gains in the current tax year do not exceed £12,300.
- Any gains on assets you gift to your spouse, as long as you were not separated and didn't live together during the tax year.
- Qualifying gifts to a charity.
- Gains from ISAs or PEPs.
- Gains on disposal of certain UK government gilts and Premium Bonds.
- Betting, lottery or pools winnings.
- In most instances, the disposal of your main home.
- The disposal of your own car unless you use it for business purposes.
- Any personal possession (jewellery, paintings, antiques and other collectibles) unless sold for more than £6,000.

CGT rates for 2020-21 are:

If you pay income tax at higher rates (40% or above) you will pay CGT at:

- 28% on gains from sale of chargeable residential property, and
- 20% on gains from sale of other property.

If you pay income tax at basic rates (20%) you will pay CGT at:

- 18% on gains from sale of chargeable residential property, and
- 10% on gains from sale of other property.

To qualify for the lower rates your taxable income plus the chargeable gain must be within the basic rate income tax band. If the gain is part under and part over this limit you will pay CGT at the lower and higher rates.

CGT Check List for 2020-21

Work though the check list that follows and if any apply to your circumstances call to discuss your options.

❑ Make sure you utilize your annual tax-free allowance of £12,300. Consider selling assets, shares for example, that can be sold within the tax free allowance.

❑ If your chargeable gains are likely to exceed the £12,300 limit, are there any assets you can sell at a loss to reduce the total gains below the tax-free limit? It is no longer possible to sell and buy back shares to facilitate this planning option by crystalising a loss unless you buy-back after more than 30 days; the so-called "bed and breakfast" arrangements apply.

❑ If you are contemplating the sale of your business make sure you have arranged your affairs such that you can claim Entrepreneurs' relief. This will potentially allow you to make qualifying gains of up to £1m and only pay CGT at 10%.

- ❑ As the level of your taxable income, for income tax purposes, will affect the rate of CGT you will pay, investigating ways to reduce your income tax earnings may save you CGT as well as income tax.
- ❑ A gift of chargeable assets to your spouse does not create a CGT charge.
- ❑ Your spouse and children also qualify for a separate tax-free allowance of £12,300. Transferring assets between family members can reduce overall CGT liabilities if considered before a sale.
- ❑ It may be possible to claim other reliefs to reduce your potential liability to CGT. These could include rollover and hold-over gains reliefs. If you are likely to make significant capital gains during 2020-21 please contact us for advice as soon as possible so that we can explore available strategies for minimizing your CGT bill.
- ❑ Although the sale of your main home is generally free of CGT, if you have let the property for any time during your period of ownership, or if you have made significant use of the property for business purposes, then there may be a CGT liability when you sell. If you are affected, make sure you take advice on this issue.
- ❑ CGT payable on chargeable disposals after 5 April 2020 and before 6 April 2021 will be due for payment 31 January 2022. If you delay the disposal until after 5 April 2021, any CGT due will be payable a year later, 31 January 2023. Theoretically, you could delay a disposal by one day (from the 5 April to the 6 April 2021) and it would extend the amount of time you would have to pay the tax to by 12 months. This does not apply to disposals of residential property – say a second home. Chargeable disposals of this type have to be reported to HMRC online within 30 days of the sale completing, and more importantly, any CGT due has to be paid within the same 30 day window.
- ❑ Review all the assets you own that are currently worth less than you paid for them. Should you dispose of them and make use of the capital losses? Which would be the best tax year to register the loss? This could include a claim to treat shares as having no value (a negligible value claim).

Inheritance tax (IHT)
IHT is payable when a person dies, and their estate exceeds certain limits. It is also potentially payable on gifts made by an individual during their lifetime if the gift was made in the seven-year period prior to their death.

Small lifetime gifts can be exempt. These include:
- Gifts made out of your disposable income, Christmas or birthday presents for example.
- Other gifts up to £3,000 per tax year are exempt from IHT. An unused allowance can be carried forward for just one year.
- Wedding or civil ceremony gifts of up to £1,000 per person (£2,500 for a grandchild or great grandchild, £5,000 for a child).
- Payments to help with another person's living costs, e.g., an elderly relative or a child under 18.
- Gifts to charities and political parties.

Larger lifetime gifts are potentially chargeable to IHT. The potential liabilities are:
- IHT is payable at 40% on gifts you make within 3 years of your death.
- Gifts made between 3 to 7 years of your death are tapered. The effective rate of IHT charged reduces from 40% down to 0%.

Other situations that will affect your estate's liability to IHT include:

- Any assets left to your spouse are free of IHT.
- If the value of your estate is below £325,000, no IHT is payable.
- If your previously, deceased spouse did not use their £325,000 threshold, you can add this to your exempt threshold. Effectively, in these circumstances, your estate would pay no IHT if valued at less than £650,000.
- A new nil-rate band is available from April 2017. Called the main residence nil-rate band, it applies when a residence is passed on death to a direct descendant. This additional relief makes it easier for families to pass on the family home without a tax charge. The relief will amounts to £175,000 for 2020-21.

IHT Check List for 2020-21

Work though the check list that follows and if any apply to your circumstances call to discuss your options.

- ❑ Make sure you have an up-to-date Will. Dying without a Will can cause all sorts of problems for your surviving family as well as affecting your IHT liabilities.
- ❑ If you own assets in excess of your available IHT exempt threshold, consider transferring assets into trusts or make lifetime gifts in order to reduce your family's exposure to IHT. The timing of creating a trust can be critical and can have significant tax implications. Take advice sooner rather than later.
- ❑ Make the most of the annual gift exemptions. You can only carry forward the £3,000 unused annual allowance for one year.
- ❑ If you own a business, take advice on the potential IHT risks and the availability of Business Property Relief. This planning should probably be combined with consideration of the continuing ownership and control of your business after your death.
- ❑ If possible, reduce your exposure to IHT by transferring assets out of your estate. Bear in mind that these transfers, lifetime gifts, may not fully reduce your IHT liability until the 7-year period after that gift is made has expired.
- ❑ It may be possible to transfer the ownership of your interest in a business without losing control. You will need to take specialist advice.
- ❑ You can reduce the rate of IHT on some assets from 40% to 36% if you leave more than 10% of your estate to charities.
- ❑ If your estate includes significant property holdings this may mean that your executors have to sell property in order meet IHT payable. It may be prudent to leave instructions on which property(ies) to sell.
- ❑ If your circumstances change, for example, if you divorce or re-marry, make sure you make a new Will and reconsider your IHT planning to make sure it is still relevant to your changed circumstances.

How We Can Help

For more information regarding any issues raised in this Broadcast then as ever, please contact us on **01753 888211** or email **info@nhllp.com**