

# PERSONAL TAX YEAR END PLANNING



With the 2019/20 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 2020 BUDGET

2019 was the first year without a Budget in more than a century. The next Budget will be on Wednesday 11 March, close to the start of the new tax year. It is expected to include an increase in the national insurance threshold to £9,500 from 2020/21. Other measures promised by the Conservatives in their election manifesto include:

- Increasing the R&D tax credit rate to 13% and reviewing the definition of R&D
- Increasing the Employment Allowance for small businesses from £3,000 to £4,000 for 2020/21
- Increasing the rate of Structures and Buildings Allowance (SBA) from 2% to 3%
- Keeping the VAT registration threshold at £85,000 until at least 31 March 2022
- Bringing in a stamp duty surcharge on non-UK resident purchasers of UK property
- New anti-tax avoidance and evasion laws to consolidate existing measures and powers, doubling the maximum sentence for tax fraud and creating a new Anti-Tax Evasion unit in HMRC
- Introducing a digital services tax and plastic packaging tax
- Reviewing and reforming entrepreneurs' relief and potentially, inheritance tax
- Addressing problems with tax bills associated with doctors' pensions
- Fixing a loophole that prevents low paid workers in net pay schemes from receiving pension benefits
- Reviewing alcohol duties

The manifesto promises no increase in income tax, national insurance or VAT rates over the Parliament, and corporation tax rates are expected to stay at 19% for the time being. This is in addition to already announced measures, such as the digital services tax, the new corporate capital loss restriction, cuts to the final exemption period for principal private residence relief and changes to protect tax in insolvency cases. We also expect the introduction of off-payroll working rules (IR35) for the private sector. However the Chancellor announced on 7 January that these will be reviewed.



## 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.

### 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 high income child benefit charge (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 department of work and pensions (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 that your initial child benefit claim is made as soon as possible, as it can only be backdated for up to three months.



### KEY THRESHOLDS, BANDS AND ALLOWANCES

If you pay your tax via pay as you 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 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 2019/20 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 2019/20 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 2019/20 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 2019/20 than it was in 2018/19, 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.



## 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.

Also since 6 April 2017, there has been a restriction, phased in over 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). Relief for 2019/20 will be restricted to 25% of finance costs, with

the remaining 75% being available as a basic rate tax reducer. From 2020/21, no finance costs will be relieved against rental profits, and relief will only be given as a 20% tax reducer.

This can have the effect of pushing a basic rate tax payer into higher rates, although careful tax planning may prevent this. 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.

## 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.

## CAPITAL GAINS TAX

### HAVE YOU UTILISED YOUR ANNUAL EXEMPTION OF £12,000 FOR 2019/20?

...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 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 higher CGT liabilities.

Last year, we highlighted the *Higgins* case and the impact it may have had on principal private residence relief claims. Happily, Mr Higgins won his case at the Court of Appeal during 2019, meaning that the application of the relief continues to operate as originally thought.

In the 2018 Budget, the Government announced that the final 18 month period during which relief is always available, on a property that has been your main home at some point, will reduce to nine months from 6 April 2020. In addition, it proposes to restrict 'letting relief'. From April 2020 this will only apply 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 take 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 a UK residential property. A NRCGT return - and any tax payable - is due 30 days from completion. Finance Act 2019 extended NRCGT to all disposals of UK property (not just residential) for all non-resident companies and individuals.

In addition, the Government 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 significant gains from April this year, please speak to your usual FC Financial Planning adviser 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.





# INVESTMENTS

## INDIVIDUAL SAVINGS ACCOUNTS

Ensure you use your ISA allowance each year. The allowance was £20,000 for 2019/20. Up to £4,368 (for 2019/20) 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 is 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.

## PENSION CONTRIBUTIONS

The maximum annual tax relief available for contributions into a pension scheme is the lower of £40,000 (the annual allowance) or 100% of relevant earnings. 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 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. Unused annual allowances from the previous three tax years can be brought forward to top up your allowance for the current tax year.

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 any money from your pension pot. For those earning over £150,000 (or certain employees earning over £110,000), the annual allowance is scaled back by £1 for every £2 of income over the limit, down to a reduced minimum allowance of £10,000. You should take advice to ensure that you have maximised the contributions you can make, without triggering any clawback charges or exceeding the £1.055m 2019/20 lifetime allowance.

## TAX EFFICIENT INVESTMENTS

Investing in EIS shares gives you income tax relief at 30% on up to £1m invested and 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.

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. 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 2018/19 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. Should you require further information on any of the investments discussed, please speak to your usual FC Financial Planning adviser.



## 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) is adding further complexity to the IHT rules. For 2019/20, the RNRB is £150,000, increasing to £175,000 on 6 April 2020. This relief is worth currently £120,000 to a married couple, in terms of reducing the IHT payable, increasing to £140,000 from 6 April 2020. It 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

Entrepreneurs' relief (ER) is a preferential rate of CGT that is available on capital gains made on the disposal of trading businesses. The preferential rate is 10% and it is available on gains of up to £10m during an individual's lifetime. ER is a very important tax relief for any business owner contemplating the sale of a business in future. However, in addition to its 2018 changes to the ER qualifying conditions, in its General Election manifesto, the Conservative Party promised to "review and reform" ER, noting that it has not "fully delivered on its objectives".

Now that the Conservatives have formed the new Government those who qualify for ER in its current form should review their options. Shareholders who are considering an exit should seek early advice in relation to their shareholdings to ensure they can continue to qualify for ER. Relief may also be claimed by trustees where an eligible beneficiary has an interest in settled property which includes the qualifying shares.

### 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, 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 needs to be taken for year ends which straddle 31 December 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<sub>2</sub> 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<sub>2</sub> emissions of 50g/km or less, until 5 April 2021. The FYA on qualifying energy saving and water-efficient equipment will be abolished after 5 April 2020, so plan acquisitions before then.

### EMPLOYMENT INCENTIVES

Enterprise management incentive (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% 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 is also likely to introduce an extra 'surcharge' of between 1% and 3% to the additional rate, for non-resident purchasers who buy property in England and Northern Ireland (Wales and Scotland are likely to follow suit).

Watch out for joint purchases! It only takes one purchaser to be subject to the additional 3% rate to bring the whole transaction into the scope of these rules. In other words the 3% additional rate will apply to the total purchase cost for all owners if any one of them would be liable to the 3% additional rate. 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.



## SHAREDAMBITION

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