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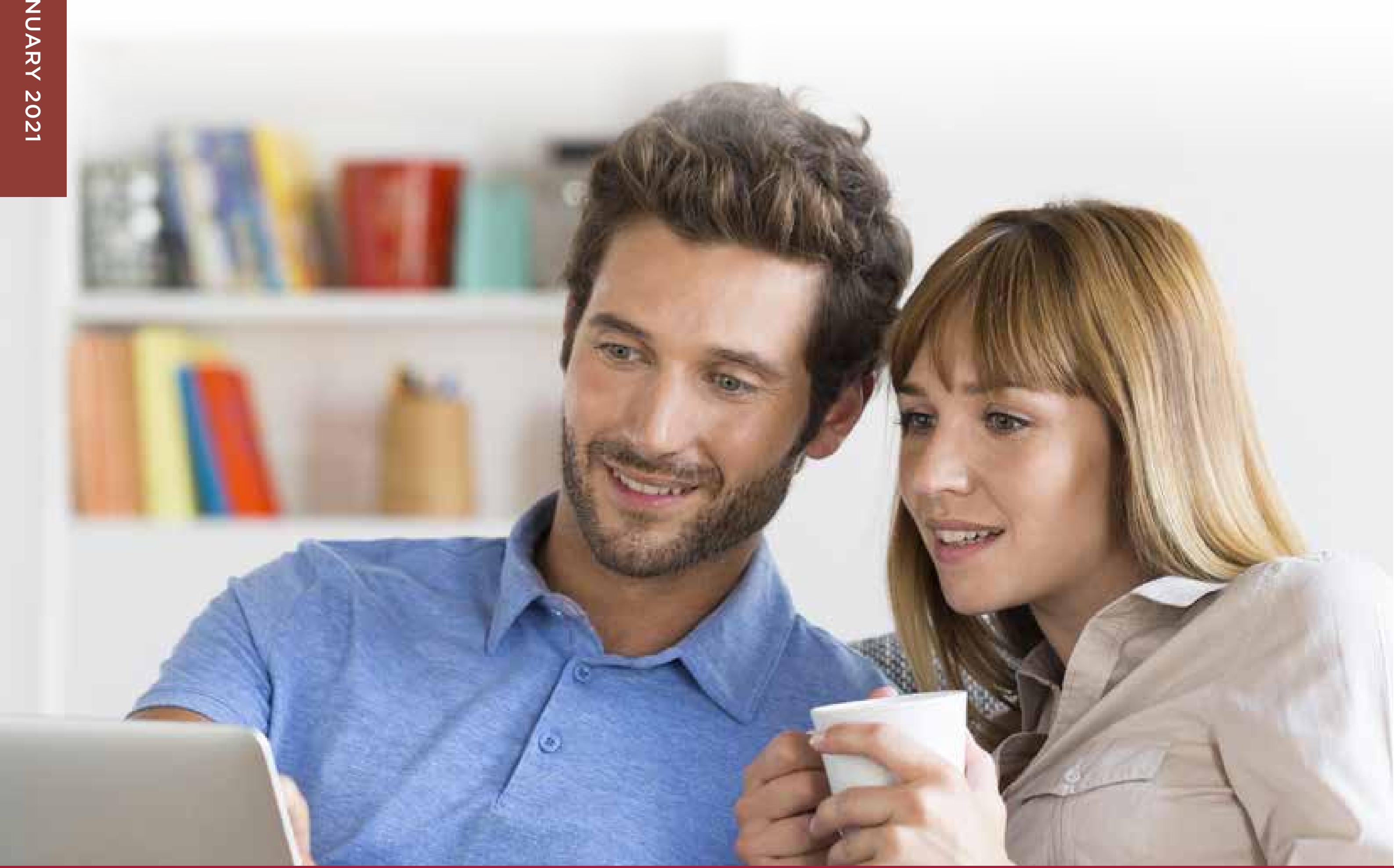
GUIDE TO

2020/21 YEAR END TAX PLANNING

KEEPING MORE OF YOUR MONEY TO ENJOY, INVEST, SAVE OR PASS ON

JANUARY 2021



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GUIDE TO

2020/21 YEAR END TAX PLANNING

Keeping more of your money to enjoy, invest, save or pass on

Tax never requires a one-size-fits-all approach. Each taxpayer and each year will be different. And with the end of the current 2020/21 tax year approaching on Thursday 1 April 2021, now is the time to carry out a tax health check and implement any planning opportunities.

We should all be thinking about tax planning throughout the course of a year, but this year we have been distracted by the impact of the coronavirus (COVID-19) pandemic on our lives. We have listed below a few reminders of the issues you may want to consider as worthy of including in your 2020/21 tax planning to-do list.

Tax planning opportunities

Tax planning might not sound very exciting, but it can have a dramatic effect on your personal finances. It is important to ensure that, if you have not done so already, you take the time to carry out a review of your tax and financial affairs to identify any tax planning opportunities and take appropriate action before it's too late.

The best way to pay less tax is to plan ahead. And with the right tax planning advice you'll keep more of your money to enjoy, invest, save or pass on. Paying no more tax than you should, is something we all strive for.

Here are some key things you might need to action before the tax year end

Personal reliefs: Married couples should utilise each person's personal reliefs, as well as their starting and basic rate tax bands, wherever possible. Could you make gi!s of income-producing assets, which must be outright and unconditional, to distribute income more evenly between you both?

Salary sacrifice: This is an especially tax-efficient way for you to make pension contributions, to save and reduce your Income Tax and National Insurance. Have you considered exchanging part of your salary for payments into an approved share scheme or additional pension contributions?

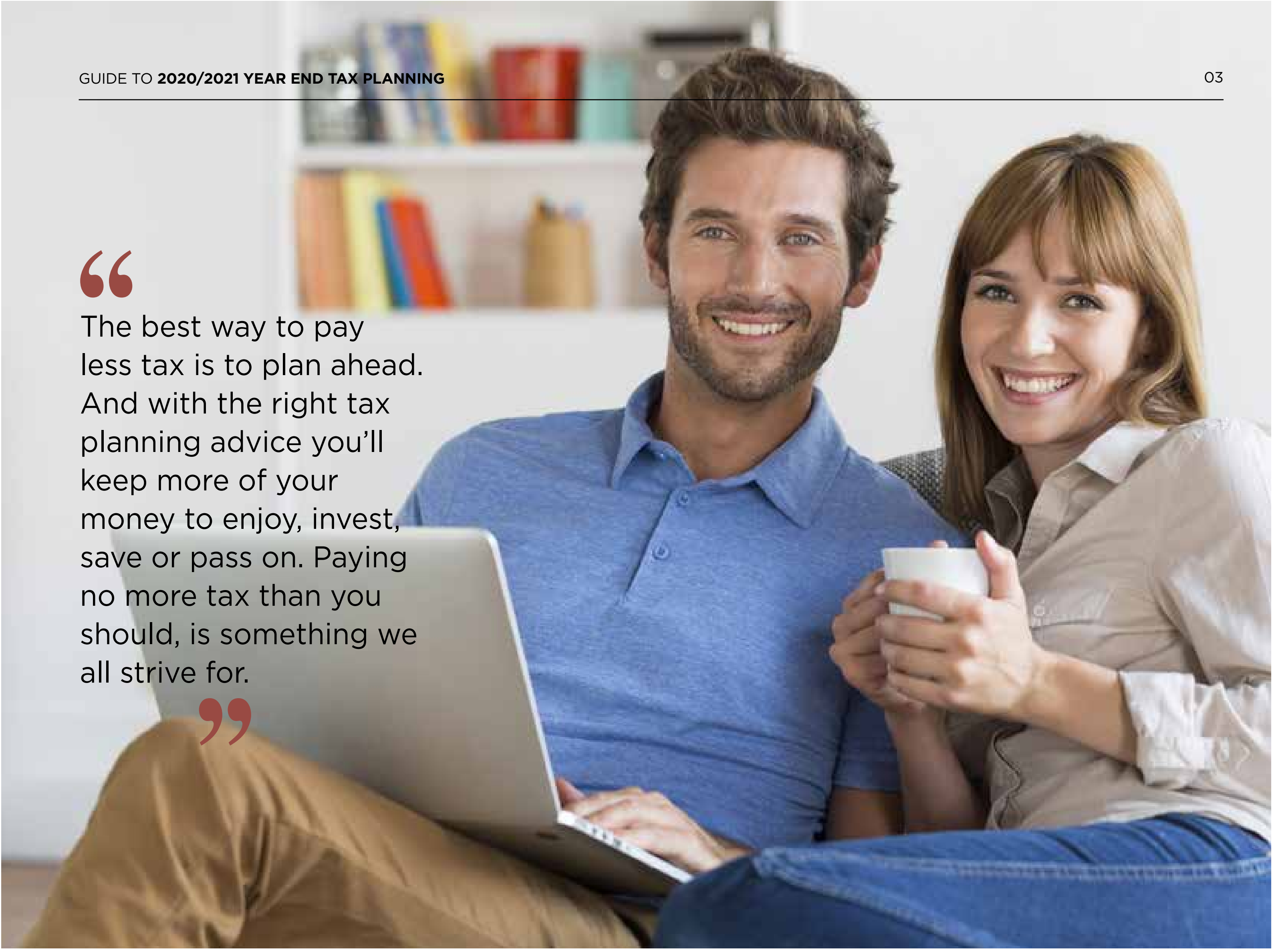
Pensions annual allowance: Unless you are an additional rate taxpayer (those with income over £150k are additional rate taxpayers but the tapered annual allowance now only applies to those with adjusted income over £240k (and threshold income over £200k), or have already flexibly accessed money purchase pension benefits then you are entitled to make up to £40,000 of pension contributions per tax year. The £40k applies to funding from all sources including employer; in addition tax relievable personal contributions are limited to 100% earnings (or £3,600 if more) so tax-efficient personal contributions might be limited to less than £40k where earnings are less than £40k. Have you fully utilised your tax-effcient contributions for this tax year or any unused allowances from the three previous tax years?

Stakeholder pensions: A stakeholder pension is available to any United Kingdom resident under the age of 75. Children can also make annual net contributions of £2,880 per year, making the gross amount £3,600 regardless of any earnings (or parents/grandparents etc on their behalf – £2,880 net in total if no earnings or more if the child should have earnings above £3,600pa). There are ways of using these payments to keep below the £50,000 income threshold to retain child benefit. It is also a very beneficial way of giving children or grandchildren a helping hand for the future. Is this an option you or a family member should be utilising?

Pension drawdown: If your are 55 or over you could access 25% tax-free cash from your Defined Contribution (also known as Money Purchase) pension pots and invest the rest. However, drawing large amounts in one tax year can lead to a larger tax bill than if spread over a longer period. Do you know the implications of taking money out of your pension pots?

Passing on your pension: Usually called a 'spousal by-pass trust', although the recipient may not always be a spouse, this is a discretionary trust set up by the pension scheme member or pension holder to receive pension death benefits.

Individual Savings Accounts (ISAs): An ISA allows you to save tax-efficiently into a cash savings or investment account. The proceeds



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are shielded from Income Tax, tax on dividends and Capital Gains Tax. Have you fully utilised the maximum £20,000 annual allowance?

Junior ISA: This is a long-term tax-efficient savings account set up by a parent or guardian, specifically for the child's future. Only the child can access the money, and only once they turn 18. Have you invested the maximum £9,000 allowance for your child or children?

Lifetime ISAs (LISAs): You must be aged between 18 and 40 to open a Lifetime ISA. The Government will provide a 25% bonus on the money you invest, up to a maximum of £1,000 per year, and this is retained as long as the LISA funds are used for first home purchase or are left invested to age 60. You can save up to £4,000 a year, and can continue to pay into it until you reach age 50. Could you be taking advantage of this very tax-efficient savings option?

Capital Gains Tax (CGT): There are two different rates of CGT – one for residential property and one for other assets. If your assets are owned jointly with another person, you could use both of your allowances, which can effectively double the amount you can make before CGT is payable. If you are married or in a registered civil partnership, you are free to transfer assets to each other without any CGT being charged although the recipient keeps the same base cost. Have you fully used your £12,300 annual exemption?

Inheritance Tax (IHT) relief: IHT must be paid on the value of any estate above £325,000, or £650,000 for married couples (excluding the residence nil-rate band, noted below). However, certain business assets, including shares and farmland, in private trading companies can qualify for 100% relief from IHT. Are you taking advantage of the reliefs available to you?

Residence nil-rate band (RNRB): This allowance was introduced during the 2017/18 tax year and is available when a main residence is passed on death to a direct descendant. The allowance is currently £175,000. When combined with the nil-rate band of £325,000, this provides a total IHT exemption of £500,000 per person, or £1 million per married couple.

Charitable and personal gifts: If you leave at least 10% of your net estate to charity a reduced inheritance rate of 36% applies to the taxable estate (and the gift to charity is exempt from IHT) rather than the usual 40%. Other exemptions apply for interspousal transfers, transfers of unused annual income, business and agricultural assets, and for various other fixed, small amounts. Are you intending to make gifts before the end of the current tax year?

Trust funds: Crucially, a trust can help to avoid IHT and ensure that the majority of your money, shares and equity are passed on in the most efficient way. Should you consider setting up a trust? ■

TAX YEAR-END CHECK-UP

The 2020/21 tax year is coming to a close, and if appropriate to your particular situation there are some important tax planning issues and opportunities you may wish to consider. No matter what kind of taxpayer you are, you need to plan ahead. Once the tax year has already ended, you've lost virtually any flexibility available to you to manage your tax affairs.

To find out more or to discuss your situation, please call us – we look forward to hearing from you.

TIME TO GIVE YOUR FINANCES A TAX YEAR-END CHECK-UP?

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