Year End Tax Planning – 5 April 2020

In these extremely challenging times, tax may not be at the forefront of everyone's minds. But as the 2019/20 tax year is drawing to a close, here are some ideas to consider in relation to mitigating tax liabilities:

Tax saving tips for the family	Each spouse is taxed separately, and so it is an important element of basic income tax planning that maximum use is made of personal reliefs and the starting and basic tax rate bands. If you are self-employed or run a family company, consider employing your spouse or taking them into partnership as a way of redistributing income. Consideration should be given to declaring dividends before the 5 April in order to avail of the current tax free dividend allowance of £2,000.
Child Benefit	If you are in receipt of Child Benefit and either of you or your live in partner (widely defined) have income above £50,000 then it is possible that you may have to pay back some or all of the benefit. This could be avoided by reducing income for this purpose. Examples include making additional pension contributions or charitable donations or reviewing how profits are shared and extracted from the family business.
National Insurance matters	If a spouse is employed by the family business it may be worth paying earnings in 2019/20 of between £118 (the employee lower earnings limit) and £166 (the employer threshold) per week. No National Insurance contributions are due on earnings in this bracket but entitlements to the state retirement pension and certain other state benefits are preserved.
Company cars – benefits in kind	This is also a good time to review your company car situation given the planned changes in 2020/21. Choosing to drive a fully electric car will mean you pay no company car tax for 2020/21, with a small charge the following year.
Payments on Account	A reminder that as part of the measures announced by the Chancellor to provide support through the Covid-19 crisis, income tax payments due in July 2020 may now be deferred. So you do not have to make your second payment on account towards your 2019/20 tax liability until 31 January 2021.
Capital Gains Tax	
Annual Exemption	The first £12,000 of gains made in the 2019/20 tax year are free from CGT, being covered by the annual exemption. Each individual has their own annual exemption, as indeed do children. A transfer of assets between spouses may maximise the use of annual exemptions. Consider selling assets standing at a gain before the end of the tax year on 5 April to use the annual exemption.
Investments – are yours tax efficient?	
Individual Savings Accounts	Individual Savings Accounts (ISAs) provide an income tax and capital gains tax free form of investment. The maximum investment limits are set for each tax year and the 2019/20 limit is £20,000. To take advantage of the limits available for 2019/20 the investment(s) must be made before 5 April 2020.
Pension Contributions	The standard annual allowance remains at £40,000 for pension contributions in 2019/20. This allowance is reduced by £1 for every additional £2 of an individual's 'adjusted income' over £150,000. This means that the Annual Allowance will be £10,000 for individuals with annual income of £210,000 or more. The annual allowance takes into account both employer and employee contributions. It is important to take advice on contribution levels because if the total contributions you make, or that are made on your behalf, exceed your available allowance (including any unused relief brought forward), a tax charge will arise effectively withdrawing tax relief on the excess contribution.

Year End Tax Planning – 5 April 2020

Landlords – Consider using a Limited Company	With restrictions on loan interest deductions in force, in some circumstances there may be tax advantages in forming a limited company to take over the running of a property letting business. As long as the loan interest paid does not exceed £2m a year, companies will still be able to deduct interest in full as an expense when calculating their letting profits. In addition, the current rate of corporation tax is only 19%. However additional taxes may be incurred when funds are withdrawn from the company.
Investing in EIS or SEIS shares	Tax relief is available for subscriptions into shares qualifying for Enterprise Investment Scheme (EIS) or Seed Enterprise Investment Scheme (SEIS) relief. Under the EIS scheme, your tax liability for the year may be reduced by up to 30% of the sum invested, up to a maximum of £1m invested in relation to each tax year. In addition, capital gains from disposals in the previous 36 months or the following 12 months may be deferred. The SEIS scheme offers another form of investment relief for investors who subscribe for shares in small start-up companies. The maximum qualifying investment is £100,000 and income tax relief is given at the rate of 50% of the sum invested. Both EIS and SEIS shares are normally exempt from CGT and IHT, subject to detailed conditions being met. As with all investments, specific advice should be sought before investing.
Inheritance Tax	
Review and Update your Will	It is vitally important to regularly review and update your Will as financial and family circumstances change and tax rules evolve.
Do your Assets qualify for Relief?	Inheritance tax (IHT) is payable on the chargeable value of your estate above £325,000. An additional nil rate band is available where a residence is left to direct descendants – £150,000 in 2019/20, increasing to £175,000 from 2020/21 onwards. However, several types of assets qualify for 100% relief from IHT once held for two years. So consider realising your current assets and reinvesting in business and agricultural assets, shares in private trading companies (including AIM listed shares) and trading partnerships. Cash and buy to let properties do not qualify for Inheritance tax relief, so they will require particular attention.