

Tax year end planning for individuals

You should review your financial position and take actions before 5 April to ensure that you have taken advantage of all the tax reliefs and exemptions that may be available to you.

There are a number of tax saving opportunities that can be used depending on your circumstances. The following is intended as a brief guide to those that may be worth considering.

There are opportunities in all areas of tax. For individuals the main taxes are:

Income Tax

- 1 Personal allowances including dividend allowance and savings allowance
- 2 Pension contributions
- 3 Savings for children
- 4 Tax exempt savings
- 5 Charitable giving
- 6 Tax efficient business investments

Capital Gains Tax (CGT)

- 1 Annual exemption
- 2 Crystallisation of losses
- 3 Inter-spouse transfers
- 4 Business Asset Disposal Relief
- 5 Enterprise Investment Scheme (EIS)

Inheritance Tax (IHT)

- 1 Gifts out of income
- 2 Annual exemption
- 3 Other exemptions
- 4 Business and agricultural reliefs
- 5 Nil rate bands
- 6 Gifts to charities

Income Tax

1 Personal and other allowances

Everyone resident in the UK is potentially entitled to a personal allowance. If not used it is lost. The basic allowance from 6 April 2020 is £12,500.

Dividend and savings allowances remain at their 2019/2020 levels. See our separate information sheet on these.

If one spouse does not have enough income to utilise their personal allowances in full, income producing assets can be transferred to them. For CGT purposes, such a gift is tax neutral. Furthermore, in a situation where one spouse is a higher rate tax payer with the other spouse having unused lower rate tax bands, a transfer of assets should also be considered.

Please refer to us if you wish to consider making such transfers. A lower earning spouse may be brought into Self-Assessment if care is not taken and there are some anti-avoidance provisions that may need to be considered as well. Also,

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where assets are transferred to children, income generated from capital given by a parent that exceeds £100 per annum will be taxed on that parent. Investing in a Junior ISA is an exception to this (see Savings for children).

2 Pension contributions

The maximum contribution to a pension scheme on which tax relief can be claimed each year is limited to the greater of £3,600 or UK relevant earnings. The amount of tax deductible pension contribution per individual is limited to the standard annual allowance, currently £40,000.

For the tax years 2016/17 to 2019/2020, the allowance was reduced by £1 for every £2 of income between £150,000 and £210,000. With effect from 6 April 2020 the income threshold at which the annual allowance starts to taper has been raised to £240,000.

There may be the opportunity to absorb unused allowances where pension savings for the last 3 years have been lower than the annual allowance.

Advice should be sought to ensure that pension contributions can be maximised within annual and lifetime allowances.

3 Savings for children

Junior ISAs allow children to save up to £9,000 (2020/21) per year and the returns are tax free. The ISA is locked until the child is 18, at which point the account defaults to a normal ISA if the funds are not withdrawn.

4 Tax exempt savings

Both income and gains within an ISA are tax exempt. The maximum that can be

invested in an ISA is currently £20,000 each year. There is no carry forward, so this allowance must be used by 5 April. Investments can be in cash or shares.

5 Charitable giving

Under Gift Aid, the chosen charity can claim tax relief on the grossed up donation and a higher rate tax paying donor can get higher rate relief against income tax. In some circumstances, the donor can elect to carry back a gift aid donation as though it were paid in the previous year.

Tax relief may be obtained on the disposal of certain shares and unit trust holdings by way of gift or sale at undervalue to charity. No CGT will arise on the gift and the charity is able to sell the investment tax free.

With the payroll giving scheme, donations are made through PAYE from pre-tax employment income.

6 Tax efficient business investments

Income tax relief is obtained at 30% on shares subscribed for in EIS qualifying companies up to a maximum of £2 million. However the amount above the first £1 million must be invested in "knowledge intensive companies". It is also possible to receive CGT deferral relief. Please refer to the section below for more detail.

Under the Seed Enterprise Investment Scheme (SEIS), income tax relief is available at 50% on investments up to £100,000. CGT reinvestment relief is available for certain gains on assets where the disposal proceeds are reinvested in SEIS.

Social Investment Tax Relief (SITR) enables individuals to invest up to

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£1,000,000 with income tax relief available at 30%.

Individuals can invest up to £200,000 in a Venture Capital Trust (VCT) scheme in a tax year. The investment attracts tax relief at 30% and dividends are exempt from income tax.

Capital Gains Tax

1 Annual exemption

Sufficient gains should be made during the year to utilise fully the annual exemption which is £12,300 for individuals and £6,150 for trustees from 6 April 2020.

2 Crystallise losses

Assets with an inherent loss should be disposed of in a year where there are substantial gains in order to ensure that CGT is kept to a minimum. Any unrelieved losses can be carried forward to offset future capital gains.

Capital losses must be claimed within four years of the end of the tax year in which they are realised, so losses realised in 2016-17 must be claimed by 5 April 2021.

3 Inter-spouse transfers

Where gains are expected, always consider who should make the disposal in order to maximise the use of personal annual exemptions and losses.

Transfers between spouses are tax neutral. However, where a transfer takes place just before a disposal, there may be anti-avoidance implications and you should seek professional advice before taking action.

4 Business Asset Disposal Relief and gift relief

Where a gain arises from the disposal of, or of an interest in, a trading business or company which falls within the conditions for Business Asset Disposal Relief, it will be taxed at an effective rate of just 10%. Currently there is a lifetime limit for this relief to gains up to £1 million.

The conditions for the relief were tightened for disposals after 29 October 2018 and remain complex. It is important to keep eligibility for the relief under review.

Gift hold over relief may be available if you give away business assets or shares in a trading company that is your personal company or not listed on a recognised stock exchange. A similar relief applies to certain gifts into a trust.

5 Enterprise Investment Scheme (EIS)

Gains can be sheltered by re-investing into a qualifying EIS company. The gain is, effectively, deferred until the EIS shares are disposed of.

In the case of a new company formation, it may be worth considering applying for the initial share subscription to be within EIS. The company has to be a qualifying company, and, as long as the conditions are met throughout the first 3 years, there is no CGT liability on any gain which arises on the eventual sale of the company.

Inheritance Tax (IHT)

1 Gifts out of income

Gifts from post-tax income made on a regular basis are exempt from IHT provided

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that the donor retains sufficient income to maintain his or her usual standard of living.

2 Annual exemption

Each taxpayer has an annual exemption for gifts up to £3,000 per year. This exemption may be carried forward by one year only.

3 Other exemptions

These include gifts to a UK domiciled spouse, small gifts, marriage gifts and gifts to charity. Professional advice should be sought to ensure that these are correctly applied.

4 Business and agricultural reliefs

Qualifying assets can attract up to 100% relief on lifetime transfers or death. Qualifying assets generally need to have been owned for at least two years prior to a transfer.

5 Nil rate bands

Where Wills have been drafted to leave all assets to a surviving spouse, he or she can benefit from two nil rate bands (currently a maximum of £650,000) on their death.

This also applies on a proportionate basis to a widow/widower where only part of the nil rate band was used on the first spouse's death. It does not matter how long ago the first spouse died.

The claim to transfer any unused nil rate band of the first deceased has to be made within two years of the survivor's death or three months after the personal representatives are appointed if later.

The Residence Nil Rate Band (RNRB) is potentially available to the estates of those

who die on or after 6 April 2017 where an interest in the family home is left to children, grandchildren, or other lineal descendants.

The maximum amount of RNRB per person is £175,000 from 6 April 2020. A widow/widower's estate may be able to benefit from up to twice this amount.

6 Gifts to charities

Where gifts to charity are made by Will, there is a reduction in the rate of IHT on the estate from 40% to 36% if the amount of the charitable donation is at least 10% of the "net estate". The provisions for this relief are complex and professional advice should be obtained to ensure that your Will is appropriately drafted.

Each person's circumstances are different. For further advice in relation to a specific matter, please contact Kristina Mathieson, Personal Tax Manager or Stuart Goodbody, Partner on 01892 510000 or by email at:

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