MARCH 2020

GUIDE TO

2019/20 TAX YEAR-END PLANNING

NOW IS THE TIME TO MAKE SOME TAX-SMART MOVES BEFORE IT'S TOO LATE

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Now is the time to make some tax-smart moves before it's too late

Tax is never a one-size-fits-all approach: each taxpayer and each year will be different. And with the current tax year-end approaching, this is a perfect time to carry out a tax health check and implement any planning opportunities before the end of the 2019/20 tax year.

There are a number of valuable allowances and reliefs that will be lost if they are not used before the deadline. These opportunities include, but are not limited to, these four important areas of tax planning that should be considered. We've summarised these allowances below and suggest that, if appropriate to your particular situation, these areas should be reviewed before 5 April 2020.

We've provided our top end-of-year tax tips to help you save time and money on your taxes.

1. Take your ISA contributions to the max

The term ISA stands for 'Individual Savings Account' and allows you to save tax-efficiently into a cash savings or investment account. With a Cash ISA or a Stocks & Shares ISA (or a combination of the two), you can save or invest up to £20,000 a year tax-efficiently. Your ISA allowance doesn't roll over into a subsequent tax year, so if you don't use it, you'll lose out forever.

If you are in a position to, it may make sense for you and your spouse to take advantage of each other's ISA allowance, particularly if one of you has more financial resources than the other. That way, you can save (in the case of Cash ISAs) or invest (in the case of Stocks & Shares ISAs) up to £40,000 tax-efficiently in the current tax year.

Also, 16 and 17-year-olds actually have two ISA allowances, as they're able to open a Junior ISA (which for 2019/20 has a limit of £4,368) and an adult Cash ISA. This means that you could put away up to £24,368 in your child's name tax-efficiently this tax year.

People aged 18–39 can open a Lifetime ISA, which entitles them to save up to £4,000 tax-efficiently a year until they're 50. The Government will top up the savings by 25%, up to a maximum of £1,000 a year.

Viewing your and your spouse's allowance as one will allow you to make the most of these tax advantages.

2. Make the most of your pension tax reliefs

Now is also the time to check you are taking full advantage of your pension tax reliefs and allowances. Normally, between you and your employer, you can contribute a maximum of £40,000 into your pension in a tax year (called your 'annual allowance') before it becomes subject to Income Tax. It's important not to exceed this limit – which is set at either 100% of your salary or £40,000 (whichever is lower). However, for high earners with a taxable income of more than £150,000 per year, this is tapered downwards.

If you don't manage to make full use of your £40,000 pensions annual allowance this tax year, you can carry it forward for up to three years. For example, in the current 2019/20 tax year, you could carry forward unused contributions from 2016/17, 2017/18 and 2018/19, but the clock re-starts on 6 April this year.

Everyone is entitled to a tax-free personal allowance. This is the amount of income you don't pay any Income Tax on, and for 2019/20 stands at £12,500. If your income is above £100,000, the basic personal allowance is reduced by £1 for each £2 you earn over the £100,000 limit, irrespective of your age.

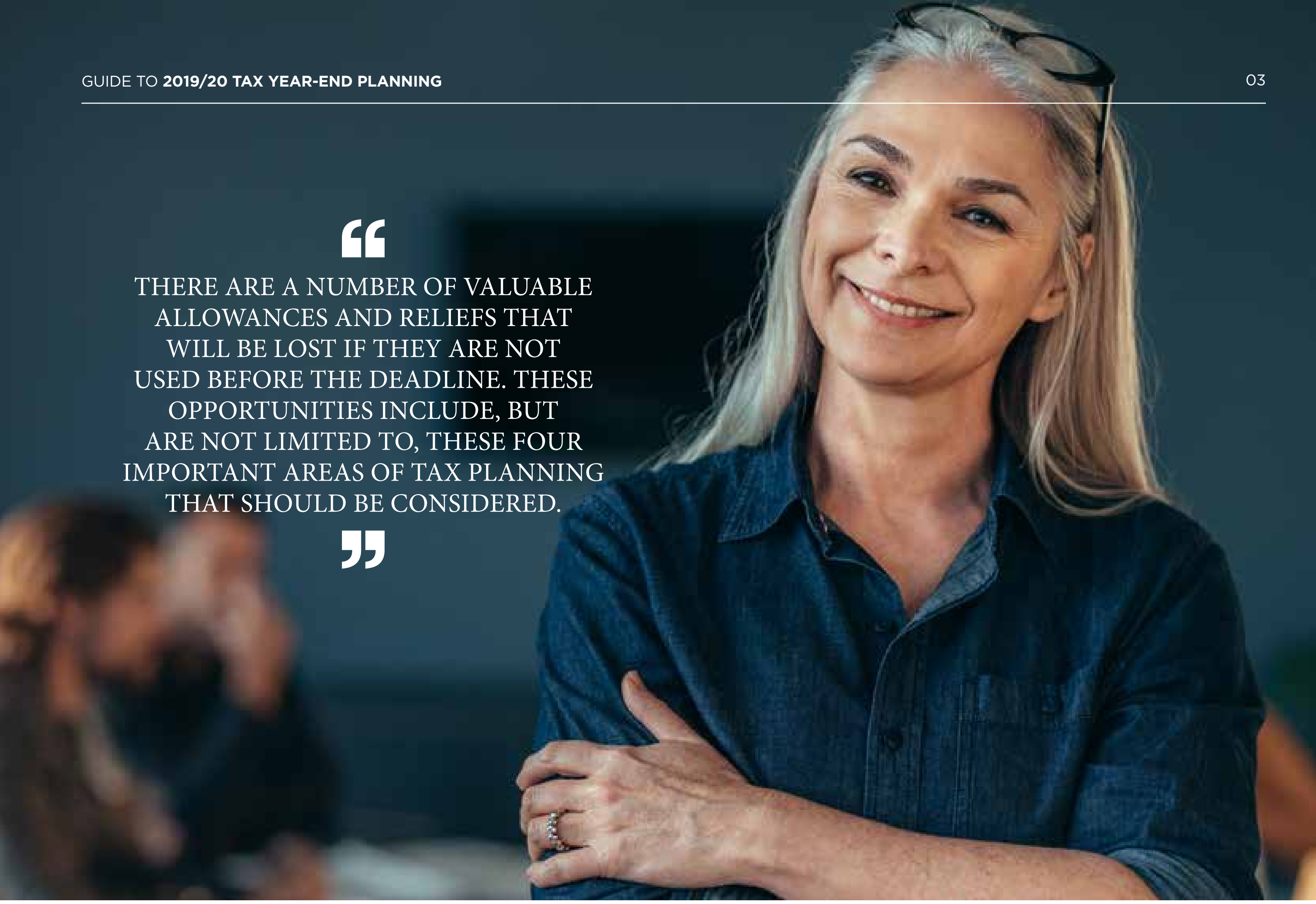
However, you could get some of your allowance back by increasing your pension contributions, as the income on your tax return will be lower to take your extra pension contributions into account.

You can also increase your basic State Pension by making voluntary Class 3 National Insurance Contributions (NICs).

3.Tackle the ongoing issue of Inheritance Tax

Inheritance Tax (IHT) is usually payable at 40% on the portion of an estate that exceeds the £325,000 nil-rate band (NRB). Like the NRB, the unused percentage of the residence nil-rate band (RNRB) can be transferred between spouses and registered civil partners.

The RNRB is on top of the NRB, allowing individuals to pass on a qualifying residential property to their direct descendants. The maximum RNRB is £150,000 this year, and next year a couple will be able to combine



> THERE ARE A NUMBER OF VALUABLE ALLOWANCES AND RELIEFS THAT WILL BE LOST IF THEY ARE NOT USED BEFORE THE DEADLINE. THESE OPPORTUNITIES INCLUDE, BUT ARE NOT LIMITED TO, THESE FOUR IMPORTANT AREAS OF TAX PLANNING THAT SHOULD BE CONSIDERED.

their NRB and RNRB allowances to pass on property worth £1 million free of IHT. The RNRB is reduced by £1 for every £2 that the value of the net estate exceeds £2 million.

You can act at any time to help reduce potential IHT. However, gifting money is an area that is subject to an annual limit, which runs from the start of the tax year, and could be worth adding to your year-end to-do list. Tax exemptions released through gifting should form a key part of IHT planning.

The annual allowance means you can gift up to £3,000 each year, exempt from IHT – so as a couple, you can make £6,000 worth of gifts. It can also be carried forward for one year.

You can give as many gifts of up to £250 to as many people as you like – that is, unless the person has already received a gift equating to the annual £3,000 exemption. Some types of gifts, such as wedding gifts or gifts to help with living costs, can also be given tax-free.

However, another factor to consider is the legislation around IHT, which could be subject to change in the near future. The Office of Tax Simplification is currently undertaking a significant review that could inform forthcoming policy decisions, so this year – before any changes come into force – reviewing your IHT plans, including gifting, should be a priority.

This is a complex area with qualifying conditions and requires expert estate planning advice.

4. Plan to reduce a Capital Gains Tax bill

Capital Gains Tax (CGT) is a tax on the profits you make when you sell something such as an investment portfolio or a second property. Everyone has an annual allowance of £12,000 (in 2019/20) before CGT applies.

The allowance is for individuals, so couples have a joint allowance for 2019/20 of £24,000. If appropriate to your particular situation, it might be worth considering transferring an asset into your joint names so you both stay within your individual allowances.

Any gains in excess of the allowance are charged to CGT at either 18% (basic-rate taxpayers) or 28% (higher-rate taxpayers), depending on the individual's other total taxable income in the year the gain arises.

An important thing to remember with this aspect of taxation is that any losses you make on sales can be offset against your capital gains for CGT purposes.

From 6 April 2020, payment of CGT from a sale of residential property must be made within 30 days of the sale from the date of completion. Any CGT from the proceeds under self-assessment will not be due until 31 January following the end of the tax year. ■

MAKE SURE YOU DON'T MISS THE DEADLINE TO CLAIM IMPORTANT ALLOWANCES AND RELIEFS

With less than two months remaining in the current 2019/20 tax year, UK-resident individuals should turn their attention to any pre-emptive steps which may be taken by 5 April 2020 in order to optimise their tax position. Personal tax planning can be complex. You should always seek professional advice when undertaking a review to ensure all changes are processed and managed effectively. To discuss your position, please contact us.

LOOKING FOR A TAILORED FINANCIAL PLAN GEARED TO YOUR GOALS?

We explore all the different aspects of your goals, taking everything into account to create a financial plan that works for you throughout all of life's events.

Contact us today to discuss how we can help you.
Don't delay – please talk to us.

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