Tax Year-End Planning for Individuals

Lopian Gross Barnett & Co
Chartered Accountants

Dear Reader

We hope you are keeping well in these uncertain times.

As the 2020/21 fiscal year draws to a close, there are opportunities for individuals to maximise available allowances and exemptions before they are lost.

Whilst there are planning opportunities every year, this year may be different because it is anticipated that the Chancellor may increase tax rates and it is possible that changes will be made as soon as ***3rd March 2021*** which is the date of the Spring Budget.

In particular, it is being speculated that changes could be made to Capital Gains Tax in the Budget. However, the Chancellor may be minded to delay any increases until the economy begins to recover following the pandemic.

We have enclosed practical tax planning ideas for your consideration.

Should you wish to discuss further, please do not hesitate to contact us.

Yours faithfully

Lopian Gross Barnett & Co

E: privateclient@lopiangb.co.uk

T: 0161 832 8721

www.lopiangb.co.uk

Tax Year-End Planning for Individuals

Capital Gains Tax Rate Change	There has been widespread speculation about a future increase in the rate of Capital Gains Tax ('CGT'). CGT is the tax paid on disposals of most assets held for investment purposes, such as shares and property. Changes to CGT rates are normally effective from 6th April. However, this has not always been the case; in June 2010 the rate of CGT increased part-way through the year and in March 2020 changes to Entrepreneur's Relief were announced. The Spring Budget is scheduled for 3rd March and it is possible that an increase in CGT could be effective from this date. If you are intending to realise any disposals, given that it is very unlikely that CGT rates will fall in the near future, consideration could be given to accelerating disposals to crystallise gains at current rates (which range from 10% on certain business assets to 28% on residential property where main home relief does not apply). If there is no third party buyer there are planning opportunities to dispose of assets to a connected individual, trust or company. This could include disposals with an option to defer the CGT if there is no increase in tax rates, although transactions that are artificial or structured in a rescindable manner are likely to fall foul of anti-avoidance legislation. Advice should be taken before realising any gains particularly if there is any intention to bring forward the tax point.
Capital Gains Tax Annual Exemption	Most individuals have a CGT Annual Exemption which is an amount of capital gains they can realise each year without paying CGT. The exemption is £12,300 in 2020/21 and if it is not used then it cannot be carried forward. Individuals may wish to crystallise gains within their Annual Exemptions before the end of the year. Transfers of assets between married couples and civil partners are tax neutral so with appropriate planning it is possible to benefit from two Annual Exemptions on a sale.
Realising Losses	If a person has chargeable gains in the year it may be possible to realise capital losses to offset against those gains. Capital losses cannot be carried back from a later year so in order to offset against capital gains they must be realised in the same year (or in a prior year). Due to anti-avoidance provisions 'bed and breakfasting' of shares is generally not tax effective (where shares in the same company are sold and reacquired by an individual within 30 days). However, if a spouse or civil partner reacquires the shares or the shares are reacquired within an ISA or family trust then this can be effective tax planning to realise losses.

Tax Year-End Planning for Individuals

Lopian Gross Barnett & Co
Chartered Accountants

Income Tax	If possible, structure your income in such a way that you avoid paying tax at the additional rate of 45% - this means keeping your income below £150,000. Also bear in mind that where an individual has income between £100,000 and £125,000 the personal allowance is tapered and income in that 'bracket' is taxed at an effective rate of 50% - 60%. Where possible it will often be useful to plan for taxable income to remain below the £100,000 threshold. Ensure that you and your spouse/partner are fully utilising your personal allowances (£12,500 each for 20/21), by transferring income yielding assets to your spouse or partner.
ISA Allowance	UK resident individuals who are aged 18 or over can invest up to £20,000 each in a tax-free ISA. This is an annual allowance which is lost if unused. Parents can fund a junior ISA or child trust fund with up to £9,000 per child for 2020/21.
Tax-Efficient Investments	Investments in companies qualifying for the Seed Enterprise Investment Scheme ('SEIS') or Enterprise Investment Scheme ('EIS') can provide income tax relief on 50% and 30% respectively on the amount investment. This can be very attractive albeit the qualifying companies are typically higher-risk. There are also CGT benefits on EIS/SEIS investments on a future sale. Finally, it is also possible to defer capital gains on other assets when investing in EIS/SEIS companies. The maximum that be invested each year is £100,000 (SEIS) and £1,000,000 (EIS). Investments in Venture Capital Trusts also offer a range of tax benefits. Income tax relief at 30% is available on investments of up to £200,000 per year and there is an exemption from income tax on dividends received.
Dividends	If you are in a position where you can turn on an income tap, an efficient method of withdrawing funds is company dividends, with the first £2,000 of dividends being tax free, to all shareholders. The Government has previously indicated they would not plan for income tax increases. However, there have been ruminations that the tax rate that applies to dividends is out of line with the headline tax rate on other income. Individuals may wish to consider whether there is any benefit in accelerating dividends to pre-empt potential changes.

Tax Year-End Planning for Individuals

Lopian Gross Barnett & Co
Chartered Accountants

Pension annual allowance	For 2020/21 individuals with 'adjusted income' below £240,000 can contribute up to £40,000 to their pensions each year. This means more individuals will be able to contribute the maximum amount to their schemes. Where 'adjusted income' exceeds £240,000 and 'threshold income' exceeds £200,000, the amount an individual can contribute to their pension each year is tapered down from £40,000 to £4,000. Pension planning is still highly effective, particularly now, given the freedom to drawdown pensions flexibly on retirement rather than purchase an annuity or the ability to pass a pension to the next generation. Prior year unused allowances can be used for up to three past tax years provided you were a member of a scheme during that period. There is a cap on the amount which can be contributed to a pension tax-free which depends on 'net relevant earnings' so care must be taken to ensure this limit is not breached.
Inheritance Tax	Every individual can gift up to £3,000 per year to an individual without any Inheritance Tax consequences. In addition, unused allowance from the prior year can be carried forward up to 1 year. In addition wedding gifts are exempt of up to £1,000 per person (or £2,500 for grandchild/great grandchild, and £5,000 for a child). Small gifts of up to £250 per person are also exempt but not in conjunction with the above. Regular gifts out of income are also exempt from Inheritance Tax subject to meeting certain conditions. If you have surplus income, it may be appropriate to consider making regular gifts out of income to reduce your IHT exposure. Gifts to individuals which are not covered by the above exemptions may be liable to Inheritance Tax where the donor dies within 7 years of the gift. The 7-year rule does not apply to 'regular gifts out of income' as outlined above.
Transfer of Unused Personal Allowance	The transfer of personal allowance allows one party to transfer up to £1,250 of their personal allowance to their spouse or partner. This is available where one partner has income below £12,500, and the other must pay tax at the basic rate of 20%.

This document covers some tax year-end planning ideas for consideration which may or may not be relevant to your circumstances. The information is based on current rules. Further advice should be taken before any action is taken.