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Could you save tax ahead of the 5 April year end?

As the end of the 2019/20 tax year approaches, businesses and individuals should aim to plan ahead in order to minimise their tax bills. Within this factsheet, we consider strategies for you to implement into your financial plan to ensure it is as tax-efficient as possible.

Use all available allowances

Make sure your personal financial plan is making the most of any allowances available to you.

Each individual is entitled to their own personal allowance (PA), which is set at £12,500 for 2019/20. However, PA clawback sees this reduced by £1 for every £2 that your adjusted net income is above £100,000. This means your PA is zero if your income is £125,000 or above.

As each spouse or civil partner is taxed separately, tax planning involves making the best use of the PA; the starting and basic rate tax band; the Savings Allowance; and the Dividend Allowance. The aim is to distribute income within the family to take maximum advantage of these. There is also the possibility of making gifts of assets to distribute income more evenly, but gifts must be outright and unconditional.

Part of the PA can be transferred between spouses and civil partners. The Marriage Allowance of £1,250 for 2019/20 can be transferred, but only where neither spouse/civil partner pays tax at the higher rate.

Take note!

Transferring just £1,000 of savings income from a higher rate (40%) tax-paying spouse or civil partner, who has used their Savings Allowance in full, to a basic rate spouse or civil partner with no other savings income may save up to £400 a year.

Review your retirement plans

Planning is vital for those aiming to enjoy a comfortable retirement, and pensions provide a significant opportunity. The annual allowance (AA) – the maximum you can contribute to a pension and still get tax relief – is £40,000. Exceeding this can result in an AA clawback charge.

Those with both net income over £110,000 and adjusted annual income (their income plus their own pension contributions and their employer's pension contributions) over £150,000 will see their AA tapered. For every £2 of adjusted income over £150,000, a taxpayer's AA is reduced by £1, to a minimum of £10,000. The 'unused relief' is brought forward where pension savings in any of the last three years' pension input periods (PIPs) were less than the AA. This can be used in 2019/20, providing the means of making a significant contribution without incurring a charge.

Meanwhile, the lifetime allowance for tax-advantaged pension savings is £1,055,000 in 2019/20. A tax charge arises where total pension savings exceed the lifetime allowance at retirement, provided that fixed, primary or enhanced protection is not available.

Please contact us for advice tailored to your circumstances.

Use savings vehicles

The Savings Allowance means a certain amount of savings income, such as bank and building society interest, can be earned tax-free. In 2019/20, this is up to £1,000 for basic rate taxpayers; up to £500 for those paying at higher rate; and nil for additional rate taxpayers.

ISAs are a popular investment. Savings held within an ISA are free of income tax and capital gains tax (CGT). Investments must be made by 5 April 2020 to take advantage of limits for 2019/20. The maximum you can save is £20,000 in 2019/20.

Beware property sales snag

Don't get caught out when relief from capital CGT changes

This year will see changes to the Principal Private Residence Relief (PPRR) exemption that keeps many residential property sales outside of the scope of CGT. The reduction in the time limit for PPRR means that, although CGT has not usually been paid on the sale of homes in the past, more sellers may get caught in the future.

From 6 April 2020, the final period exemption is cut to nine months from the current period of 18 months. This is expected to widen the CGT net considerably. We recommend that from 6 April, anyone buying a new main residence before the sale of a previous main residence looks to sell within nine months to avoid CGT consequences.

Should you give electric vehicles the green light?

It is important to ensure that your business motoring arrangements are organised as tax-efficiently as possible. Increasingly this means considering environmentally-friendly options, as government policy directs motorists down the green route via a range of incentives.

Following a review of the impact of the new World Harmonised Light Vehicle Test Procedure (WLTP) on company car tax generally, the government has confirmed that in 2020/21, for most company cars registered from 6 April 2020, the car benefit percentage rates will be two percentage points lower than the percentages for cars with the same CO_2 emissions tested under the older New European Driving Cycle (NEDC) test. Additionally, to accelerate the shift to zero emission cars, all zero emission models, regardless of whether they are tested under the NEDC or the WLTP when registered, will be subject to a 0% rate. The rate for 2019/20 is 16%. Drivers of fully electric cars will pay no company car tax in 2020/21.

To encourage green motoring, the government will reduce the percentages which apply to lower emission cars, and new performance-related bands will apply to hybrid vehicles with emissions up to 50 g/km from April 2020, depending on how far the hybrid vehicle can travel under electric power.

Company cars are generally taxed as a benefit-in-kind (BiK) by multiplying the list price of the car, including most accessories, by the 'appropriate percentage'. This percentage is set by reference to the car's fuel type and level of CO_2 emissions. For fully diesel cars, add a 4% supplement (unless the car meets the Euro 6d emissions standard).

Take note!

Employees and directors pay tax on the provision of a company car, as well as on the provision of fuel for private mileage. Employers pay Class 1A national insurance contributions (NICs) at 13.8% on the same amount.

Make use of IHT exemptions

It is important to take steps to minimise your inheritance tax (IHT) burden. Making use of IHT exemptions may be beneficial to you in the long-term. Below we highlight some steps for you to consider.

Outlining IHT

IHT is currently payable at 40% where a person's taxable estate is in excess of £325,000, known as the nil-rate band. An estate includes both the value of chargeable assets held at death, plus the value of any chargeable lifetime gifts made within seven years of death.

The residence nil-rate band (RNRB) applies where a residence is passed on death to one or more direct descendants (including a child, stepchild, adopted child or foster child). The RNRB is set at £150,000 for 2019/20, rising to £175,000 for 2020/21.

The additional band may only be used in respect of one residential property, which must have been, at some point, a residence of the deceased. In regard to estates with a net value above £2 million, the RNRB is tapered at a withdrawal rate of £1 for every £2 over this threshold. Additionally, the RNRB is available when a person downsizes or ceases to own a home on or after 8 July 2015, and assets of an equivalent value (up to £150,000 in 2019/20 or up to £175,000 in 2020/21) are passed on death to direct descendants.

Make IHT exempt transfers

Assets transferred between spouses and civil partners are usually exempt from IHT. Additional exempt transfers include small gifts (not exceeding £250 per tax year, per person) to any number of individuals; certain gifts in consideration of marriage or civil partnership; gifts to charities; normal expenditure out of income; and annual transfers not exceeding £3,000 (unused amounts may be carried forward to be applied - for one year only - to the following year's exemption).

Give lifetime gifts

Making lifetime gifts may also significantly reduce your estate's IHT liability. However, you must survive the gift by seven years and must not continue to benefit from the gift personally. A discount may also apply where lifetime gifts have been made between three and seven years before death.

Utilising IHT reliefs

A number of IHT reliefs are available, including relief on business and agricultural property. These effectively take such property outside the IHT net (although please note that detailed conditions apply).

Trusts and Wills

Trusts permit you to transfer assets out of your estate for IHT purposes, without handing the recipient complete control over the asset and/or the income it generates. In regard to Wills, it is particularly important to review your own Will following changes to your personal or family circumstances, or the introduction of new tax rules.

These are just some of the areas where we can provide advice on ways to minimise your tax bill. Others include claiming expenses and capital allowances for your business. If you require further support or advice, please do not hesitate to contact us.

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