haysmacintyre

Year End
Tax Planning Guide
2021

Contents

Tax rates and bands	1
Your family, tax efficiently	2
Planning for the future	3
Tax efficient investments	4
Savings: nicer with an ISA?	5
Capital gains. Why it matters who disposes of an asset	5
The devil in the detail: getting Gift Aid right	6
Tips for family companies now	7
Contact a member of our Private Client and Trusts team	8

The past year has been very different. COVID-19 has left a mark none of us could have envisaged. Traditionally, this is the time at which we recommend you take stock of tax and finance for you, your family and your business. A strategic review before the end of the tax year on 5 April 2021 may suggest ways to structure your affairs more efficiently and make the most of your tax position. Some planning points this year reflect the impact of the pandemic.

Please be assured that we are always on hand to advise and keep you up to date with tax and finance measures as they unfold.

Throughout this publication, the term spouse includes a registered civil partner. We have used the rates and allowances for 2020/21.

Tax rates and bands

With devolved powers, tax rates and bands can now vary across the UK. For England, Northern Ireland and Wales, see http://bit.ly/38jNe9U. Although the Welsh Government has powers to set different rates of income tax, it has maintained the same rates as England and Northern Ireland. For Scotland, please refer here http://bit.ly/2J3FeQM. Additional rate tax is payable on taxable income over £150,000 for all UK residents. It is paid at 46% in Scotland ('top rate' tax) and 45% in the rest of the UK.

Your family, tax efficiently

Key tax allowances

Personal Allowance (PA): the standard PA for 2020/21 is £12,500. If your adjusted net income is more than £100,000, the PA is restricted. This reduces your PA by £1 for every £2 of adjusted net income over £100,000. You lose the PA altogether when adjusted net income is more than £125,000. Broadly, adjusted net income is total taxable income before personal allowances, but after certain deductions like Gift Aid payments.

Tip: how pension planning can help
Pension payments are an allowable deduction in calculating adjusted net income. They can facilitate access to a lower tax band, or help avoid loss of the PA. Consider if you have scope to make a personal pension contribution by 5 April.

Dividend and Savings Allowance: the Dividend Allowance (DA) means the first £2,000 of dividend income is tax free. The Savings Allowance (SA) allows you to earn a certain amount of interest, like bank and building society interest, tax free. The level of your allowance depends on which income tax band you are in. Basic rate taxpayers can get up to £1,000, and higher rate taxpayers up to £500. Additional rate taxpayers do not qualify for the SA.

Tip: four nations
These two allowances are the same for UK taxpayers in all parts of the UK.

Tax efficient couples

Spouses are taxed separately, each having their own allowances, tax rates and bands. Aim to use the personal allowance, SA and DA for each of you, if possible. If one of you pays tax at higher or additional rate, and the other at basic rate, effecting this type of planning successfully can be particularly beneficial.

These tips can help:

Transfer capital: transferring capital, which then generates £1,000 savings income, from a higher rate taxpayer (who has £1,500 of savings income, and has used their £500 SA in full), to a basic rate spouse (who has no other savings income), could thus save £400 per annum.

Gift Aid it: if adjusted net income exceeds £100,000, PA can be restricted. A Gift Aid donation could be used to bring income below this threshold, to retain the allowance. This means that where there's both a higher rate, and basic rate taxpayer, in a couple, it's usually best for the higher rate taxpayer to make any Gift Aid donation.

Work as a team: if you work for yourself, employing your spouse, or taking them into partnership could redistribute income in a tax efficient manner. If employing your spouse, make sure decisions are commercially justifiable and that you actually pay the wages. A book entry isn't enough.

And children

It may be tempting to transfer an income-producing asset to a child to save tax. But if the child is under 18, any annual income more than £100 (gross) will still be taxable on the parent. If, however, a gift is made by a grandparent or other relative, the income is taxed on the child. This could use your child's tax bands and allowances efficiently.

Tip: Child Benefit for high earners
Child Benefit is clawed back through the High Income Child Benefit Charge (HICBC) where either you or your partner have adjusted net income over £50,000 during the tax year. For incomes above £60,000, all Child Benefit payment is lost. Look to tactics to keep the income of each parent below £50,000 in order to keep full payment.

Planning for the future

Pensions

Pensions provide significant planning opportunities. For directors of family companies, they can bring an advantage both ways. The company making employer pension contributions for the director should get tax relief, provided the overall remuneration is commercially justifiable: the director receives a benefit free of tax and National Insurance.

Pension contributions made by individuals whether as employees, directors or in business on their own account, attract higher and additional tax relief, provided the individual has sufficient relevant earnings to support the contributions. Earnings generally means employment and self employed trading income.

Non-taxpayers can also benefit from making pension contributions. In order to qualify for tax relief on personal pension contributions of up to £3,600 (gross) pa, earnings are not required. In practical terms, £2,880 can be paid into a qualifying pension scheme, which, with the addition of £720 basic rate tax relief, creates a pension investment of £3,600. This can provide a pension pot for non-working spouses or other family members. It can also be considered for someone with profits from a property investment business, which are not generally classed as earnings.

Annual allowance

The annual allowance (AA) is the maximum you can pay into a pension in the tax year and still get tax relief. In 2020/21, it is £40,000. It can be lower if you have already flexibly accessed a pension pot or have a high income (below). It's not a per scheme limit, so if you have more than one pension scheme, any contribution made, whether by you, an employer, or any other party, counts towards the overall limit. Contributions above the £40,000 AA are potentially charged to tax as the top slice of your income. Most individuals and employers take steps to limit pension saving to keep below the AA, rather than fall within the charging regime.

Tip: unused AA

If you want to make significant pension contributions in one tax year, but made smaller contributions in earlier years, the rules around carry forward of unused AA may work for you. They have particular potential if you are self-employed and earnings vary significantly year on year.

The rules mean you can contribute more than the AA in the tax year and still get tax relief by accessing any unused AA for the previous three years, starting with the earliest. We are happy to advise further here.

Change for high earners: there are special rules (and complex calculations) for high earners, for whom a lower, or tapered AA can apply. The taper reduces the AA by £1 for every £2 of adjusted income over the adjusted income threshold. From 6 April 2020, there are increases to the income limits used in the calculations, and to the minimum tapered AA.

Adjusted income rises from £150,000 to £240,000. That's broadly total taxable income before deducting taxpayer pension contributions, but counting employer contributions. Threshold income also rises from £110,000 to £200,000: broadly, total taxable income after deducting taxpayer pension contributions, and excluding employer contributions. The minimum tapered AA falls from £10,000 to £4,000. The changes will impact those with earnings more than £300,000. If your threshold income is £200,000 or less, the taper should not affect you in 2020/21.

When?

Currently, you can access defined contribution (also known as money purchase) pensions from the age of 55. This age limit will change, rising to 57 from 2028. You can access funds earlier, for example because of ill health: but using funds before the minimum age generally attracts a 55% tax charge. Generally, up to 25% of pension funds can be taken as a tax free lump sum, with any balance being taxable income: do talk to us first, to ensure tax efficiency.

Tax free saving for children

Children have their own personal allowance; savings and basic rate bands; and capital gains tax annual exemption. Junior ISAs offer an opportunity for parents and other family members to invest for tax free income and growth for the future benefit of their children. Budget 2020 more than doubled the amount that can be saved in a Junior ISA in any one tax year. From 6 April 2020, this is £9,000 rather than £4,368. Personal pension contributions, up to the £3,600 limit, with tax relief, can also be made for children, as outlined above.

Bespoke planning: please contact us for advice tailored to your personal circumstances.

Tax efficient investments

There are a number of investments with tax relief pertaining, which we bring to your attention at this time of year. The venture capital schemes offer tax relief to individuals to encourage investment in relatively newly established entrepreneurial companies and social enterprises. The schemes designed for investment in individual enterprises are the Enterprise Investment Scheme (EIS), Seed Enterprise Investment Scheme (SEIS), and Social Investment Tax Relief (SITR), although the latter currently stands to be withdrawn in April 2021. For the private investor, the Venture Capital Trust (VCT) scheme spreads the risk of investment, with investors subscribing for shares in VCTs which are companies listed on the London Stock Exchange and run by venture capital fund managers. The generous tax relief available accrues because these investments have a higher risk profile. Professional advice and research into the specifics of any proposed investment are therefore important.

Both EIS and SEIS provide income tax relief on new equity investment in qualifying unquoted trading companies. For EIS, it's 30% relief on investments of up to £1 million, and £2 million, if at least £1 million of this is invested in knowledge-intensive companies. For SEIS, up to 50% relief on investments up to £100,000. CGT exemption is given on qualifying shares held for at least three years. Capital gains realised on the sale of any chargeable asset, including quoted shares and holiday homes, can be deferred where gains are reinvested in EIS shares. If shares are disposed of at a loss, Share Loss Relief may be available, and we should be pleased to advise further here.

Savings: nicer with an ISA?

Individual Savings Accounts (ISAs) provide a useful tax free savings opportunity.

There's a maximum to the amount that can be invested in ISAs in any tax year. For 2020/21, this is £20,000. There are four different types of ISA: cash ISAs, stocks and shares ISAs, innovative finance ISAs and Lifetime ISAs (LISAs). You can invest
in one of each type, each tax year, subject to the overall maximum. Savings held within an ISA are free of income tax and capital gains tax.

There are also Junior ISAs for children under 18 (see elsewhere in this Guide).

Tip: get the most out of ISA limits
You can't carry your ISA limit forward. If you don't use it in one tax year, it's lost. Consider before the end of the tax year on 5 April 2021 whether you and other family members want to take advantage of the ISA limits.

LISAs are open to those aged 18 to 40, and are designed to be used to purchase a first home or save for later life. The most you can invest in a LISA each year is £4,000, though you can use the rest of your ISA limit to invest in a different type of ISA. The government adds a 25% top up to LISAs, capped at £1,000 each year.

Tip: help the next generation on the property ladder
You might want to help the next generation of your family save into a LISA. From an inheritance tax (IHT) planning perspective, this could be treated as a transfer of income, not capital, if you can qualify using the 'normal expenditure out of income' rules. Alternatively, you could use your IHT annual exemption to cover £3,000 of capital gifts each tax year. Although comparatively few estates actually pay IHT, the rules are complex and we should be pleased to provide advice on the issues relevant to you.

Capital gains. Why it matters who disposes of an asset

From 6 April 2020, the annual exempt amount for capital gains tax (CGT) for individuals rose to £12,300. Each spouse has their own exempt amount.

Tip: share the disposals
You must use or lose your exempt amount each tax year. You can't carry it forward if you don't use it. But if you've already used your exemption, and your spouse hasn't, and you own an asset that's to be disposed of, consider transferring it to your spouse to dispose of. Assets can usually be transferred between spouses at no gain/no loss, meaning there is no immediate tax charge on the transfer.

To determine the rate of CGT payable, net chargeable gains are added to your income, and a higher rate applies to gains (or part of them) in as much as they exceed your basic rate threshold. So if you are thinking of disposing of an asset and you would be paying a higher rate of tax on the gain, and your spouse is a basic rate taxpayer, an inter-spouse transfer could make a good first step .

It's important to get the detail right: do please discuss any disposal with us first to make sure it's effective for tax purposes.

The devil in the detail: getting Gift Aid right

If you're a taxpayer, giving to charity under the Gift Aid scheme means your charity ends up with a bigger donation by claiming back 20% basic rate tax on the gift. If you pay higher or additional rate tax, you can benefit, too, by claiming back the difference between higher or additional rate tax paid and basic rate. Different tax rates apply in Scotland, but the principle is the same.

Higher rate tax relief is normally given in the tax year in which a donation is made. So a Gift Aid payment made by 5 April 2021 would get tax relief against income of 2020/21. With this in mind, you might want to consider whether making such a donation would be beneficial to your overall tax position.

It is possible to carry back donations made between 6 April 2021 and 31 January 2022 against 2020/21 income. But strict timing rules apply. Carry back elections are best made on the self assessment tax return, making it prudent to think in terms of the self assessment timetable. To carry back against 2020/21 income, you would make the election on your 2020/21 tax return, the final filing deadline for which is 31 January 2022. Once filed, it's no longer possible to make a carry back election, nor change one already made. Another important point, particularly relevant for larger donations, is that carry back can't be used for part of a gift; it must be used for the whole sum.

Tip: will you pay enough tax?
The pandemic has impacted many people's finances. If you have signed a Gift Aid declaration for a charity you regularly support, check you will pay enough tax to cover it. Any shortfall between the tax reclaimed by the charity and the tax you pay must be made good to HMRC, so if necessary, cancel the Gift Aid declaration. Tell the charity that you wish to do so before making a further donation. More detail on cancelling Gift Aid declarations is here http://bit.ly/3if4n89.

Tips for family companies now

COVID-19 has created a tough business climate for many family companies. Additional problems may arise if the loan account of a director, who is also a shareholder, has become substantially overdrawn.

If a close company (essentially, one controlled by its directors, or by five or fewer shareholders), makes a loan to a shareholder, it can give rise to a tax liability for the company. Where a loan is not settled within nine months of the end of the accounting period, the company is required to make a payment equal to 32.5% of the loan to HMRC. You may sometimes see this referred to as a s455 tax charge. A loan can also have implications for the individual director, too, with a possible benefit in kind charge.

Broadly speaking, if the director-shareholder repays the loan balance within nine months, there is no charge on the company. In the past, this would usually be done by voting a dividend, or paying a bonus to clear the loan account. This year, many companies may find it difficult to do so. A director-shareholder may be tempted to take on short term credit, using it to repay the overdrawn balance on the loan account; the company would then provide another loan, shortly after the nine-month date, to facilitate repayment of the short term credit. However, complex anti-avoidance rules exist to catch arrangements like this. If you are concerned whether the tax charge could apply to your company, please do talk to us.

For those family companies in a position to pay dividends, the following planning points remain:

Timing of dividend payments: from a shareholder perspective, a dividend payment in excess of the Dividend Allowance (DA), delayed until after the end of the tax year on 5 April, can provide an extra year to pay any further tax due. The DA is £2,000 for 2020/21. The deferral of tax liabilities on the shareholder depends on a number of factors. Do please contact us for further advice.

Proper procedures around dividend payments: company law requires the company to be able to justify any distribution by reference to the last annual accounts, or in certain circumstances, interim accounts. The directors should be satisfied that the company will continue to be solvent after the dividend payment is made.

Structuring shareholding carefully can keep open the option to claim what used to be called Entrepreneurs' Relief, and is now called Business Asset Disposal Relief, when you eventually dispose of the business.

Contact a member of our Private Client and Trusts team

Katharine Arthur
Partner, Head of Private Client
020 7969 5610
karthur@haysmacintyre.com

Trevor D'Sa
Private Client Partner
020 7396 4365
tdsa@haysmacintyre.com

Danielle Ford
Director
020 7969 5591
dford@haysmacintyre.com

Mark Pattenden
Private Client Partner
020 7969 5590
mpattenden@haysmacintyre.com

Kay Mind
Director
020 7969 5613
kmind@haysmacintyre.com

James Walker
Private Client Partner
020 7969 5516
jwalker@haysmacintyre.com

Stephanie Parker
Director
020 7969 5505
sparker@haysmacintyre.com

haysmacintyre

haysmacintyre
10 Queen Street Place
London EC4R 1AG

T 020 7969 5500
F 020 7969 5600
E marketing@haysmacintyre.com

www.haysmacintyre.com
@haysmacintyre

Committed to Sustainability

© Copyright 2021 Haysmacintyre LLP. All rights reserved.

haysmacintyre is the trading name of Haysmacintyre LLP, a limited liability partnership
Registered number: OC423459 Registered in England and Wales
Registered to carry on audit work in the UK & Ireland and regulated for a range of investment business activities by the Institute of Chartered Accountants in England and Wales
A list of members' names is available for inspection at 10 Queen Street Place, London EC4R 1AG
A member of the ICAEW Practice Assurance Scheme

Disclaimer: This publication has been produced by the partners of Haysmacintyre LLP and is for private circulation only. Whilst every care has been taken in preparation of this document, it may contain errors for which we cannot be held responsible. In the case of a specific problem, it is recommended that professional advice be sought. The material contained in this publication may not be reproduced in whole or in part by any means, without prior permission from Haysmacintyre LLP.

Winner: Audit Team of the Year

Top 15 auditor to quoted companies in Adviser Ranking Listing

An eprivateclient top accountancy firm 2020

Top adviser to the top 5,000 charities, Charity Financials' league table 2021