

# 2019/20 Year End Strategies

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**Reviewing your financial planning strategies ahead of the end of the tax year is vital. Doing so will help to ensure that your affairs are as tax-efficient as possible.**

As your accountants, we can work with you to make sure your business and personal finances are in a strong position to weather whatever lies ahead. This includes planning to make the most of the tax-saving opportunities available to you, particularly ahead of the tax year end. There are many ways we can help you to lower your tax liabilities, increase your business's profitability and maximise your personal wealth.

This guide considers some tax-efficient planning strategies that you might wish to implement before 5 April 2020. These may include:

- making the most of the tax-efficient investment opportunities available to you and your business
- saving for a comfortable retirement
- reducing your inheritance tax bill
- driving down the cost of business motoring.

**It is essential to act now in order to minimise your tax bill and maximise tax reliefs – don't wait until 5 April 2020! Talking to us in good time will ensure that we can discuss the tax planning opportunities available to you and help you manage your cashflow by giving you early warnings of any tax payments due.**



## Use it or lose it - ISA allowances

### 2019/20 ISA limits

There are now several different types of ISA on the market, including the Lifetime ISA for adults under the age of 40 and Junior ISAs for those aged under 18. Individuals can invest in any combination of ISA investments up to the overall annual subscription limit of £20,000. The table below outlines the current ISA limits.

ISA	2019/20 limit
Cash, Stocks and Shares, Innovative Finance ISA	£20,000 a year
Junior ISA	£4,368 a year
Help to Buy ISA	£200 a month for existing accounts
Lifetime ISA	£4,000 a year with no monthly maximum amount

**We offer strategies to help you make the most of your personal wealth – please contact us for more information.**

# Is it time to consider greener motoring?

**Government policy continues to push motorists towards greener options via a range of incentives. The latest proposal is green number plates for electric cars, which would allow their drivers more advantages. In addition, the government carried out a review into the impact of new emissions tests and has announced reduced car benefit percentages for cars tested under the Worldwide Harmonised Light Vehicle Test Procedure (WLTP) that have implications for company car tax.**



## New emissions tests

The WLTP will replace the New European Driving Cycle (NEDC) for cars registered from 6 April 2020. The WLTP is more accurate than the old test, so car manufacturers expect it to show higher vehicle CO<sub>2</sub> emissions.

## Green benefit-in-kind rates

Following a review of the impact of the 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<sub>2</sub> emissions tested under the NEDC. 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 or 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<sub>2</sub> emissions. For fully diesel cars, add a 4% supplement (unless the car meets the Euro 6d emissions standard).

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.

It may be advisable to bear these changes in mind when reviewing your car and business motoring policy.

**We can review your business motoring requirements to help keep your tax liability to a minimum.**

## Tax planning - keep it in the family

**Prudent use of the whole family's tax allowances in tax planning can help you reduce your tax burden.**

### Use all your personal allowances

Every family member is entitled to their own personal allowance (PA), which is £12,500 for the 2019/20 tax year. A key element in tax planning is to make best use of the PA. If your spouse or partner has little or no income, you might want to consider spreading your income more evenly. This may involve transferring income or income-producing assets – but be mindful of the settlements legislation governing 'income shifting'. Any transfer must be an outright gift, with 'no strings attached'.

Certain married couples may also be eligible to transfer 10% of their PA to their spouse. The Marriage Allowance is available to married couples and civil partners where one spouse has income below the PA and neither spouse pays tax at the higher or additional rate. It means £1,250 can be transferred in 2019/20, reducing a couple's tax liability by up to £250 in the current year.

Children are also entitled to their own PA. However, income generated by parental gifts is subject to a limit of £100 (gross) per parent, unless the child has reached 18, or is married.

### Reducing taxable income

It is possible to reduce your taxable income through various strategies (for example, increasing contributions into a pension scheme or making charitable donations via Gift Aid). This may be beneficial if you or your spouse or partner are receiving Child Benefit, and either of your incomes are expected to be between £50,000 and £60,000. Reducing income to below this level may help to eliminate the High Income Child Benefit Tax Charge, which applies at a rate of 1% of the full Child Benefit award for each £100 of income between £50,000 and £60,000. You might also want to consider adopting a similar strategy if your income is just above £100,000, as the PA is reduced by £1 for every £2 of income over this figure.

**For further advice on tax planning across the family, please get in touch.**

# Plan now for a comfortable retirement

**Saving for a comfortable retirement is crucial. Make sure you don't run the risk of an income shortfall by making appropriate arrangements now.**

Those individuals who are not in an appropriate employer scheme should put appropriate plans into place. A handful of restrictions and allowances exist, which you are advised to consider. For contributions to be applied against your 2019/20 income, they must be paid on or before 5 April 2020.

Tax relief is available on annual contributions limited to the greater of £3,600 (gross) per annum, or the amount of UK relevant earnings. This is also subject to the annual allowance, which is £40,000.

The annual allowance is tapered for those who have both net income over £110,000 and adjusted annual income (their income plus their own and their employer's pension contributions) over £150,000. An individual's annual allowance is reduced by £1, down to a minimum of £10,000, for every £2 of adjusted income over £150,000. Where pension savings in any of the last three years' pension input periods (PIPs) were less than the annual allowance, the 'unused relief' is brought forward.

The overall tax-advantaged pension savings lifetime allowance is £1,055,000 for 2019/20. Where total pension savings exceed the lifetime allowance at retirement (and fixed, primary or enhanced protection is not available), a tax charge is applicable.

When planning for your later years, ensure you consider the other options that may be available to you. For example, you might wish to take into account the role of your business and/or your home in boosting your retirement funds, as well as the Lifetime ISA.



**From choosing a suitable pension scheme to accessing your funds and exploring other ways of boosting your pension savings, we can help you to secure the comfortable retirement you deserve. Please get in touch with us for more information.**

## Retaining profit

**It's important to reap the financial rewards that come from your hard work. Here we consider some strategies for extracting profit in a tax-efficient manner.**

### **Should you choose a dividend over a salary or a bonus?**

Some may choose to take a dividend over a salary or bonus. Dividends are paid from the profits available after corporation tax is paid. A salary or a bonus is generally tax deductible for the company, carrying up to 25.8% in combined employer and employee national insurance contributions (NICs). Dividends, however, are paid free of NICs.

The Dividend Allowance (DA) currently sits at £2,000 per year. The DA charges £2,000 of the dividend income at 0% tax: this is called the dividend nil-rate. The rates of tax on dividend income above the allowance are 7.5% for basic rate taxpayers; 32.5% for higher rate taxpayers; and 38.1% for additional rate taxpayers.

### **Other strategies to consider**

There are a handful of alternative profit extraction strategies for individuals to consider. These include:

- pension contributions – employer pension contributions often prove to be very tax-efficient when it comes to extracting profit from a company
- taking incorporation into account – self-employed individuals or those with partner status may want to consider incorporating. This may provide more scope for saving or deferring tax
- utilising tax-free allowances such as mileage payments, which apply when you drive your own car or van on business journeys
- making the most of property – you are entitled to receive rent up to the market value on property that is owned by you and used for business purposes.

However, there may be tax implications to consider, so care needs to be taken: be sure to talk to us before acting.

**For more information on extracting profit tax-efficiently, please contact us.**

## Don't miss out on relief from CGT

### **Changes to the Principal Private Residence Relief exemption**

You don't generally pay capital gains tax (CGT) on the sale of your home. However, change to the rules on 'final period exemption' is set to bring higher numbers of property transactions within the scope of CGT.

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.

# Keeping your inheritance tax liability to a minimum

**Inheritance tax (IHT) is payable where an individual's wealth is in excess of £325,000 (the 'nil-rate band'). Those who own their own house and have savings, business assets or life assurance policies could be liable to IHT.**

It is vital that people plan ahead to minimise their exposure to IHT. Here, we consider ways in which individuals can reduce their IHT liability.

## Outlining IHT

IHT is charged at 40% on the proportion of an individual's taxable estate exceeding 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.

## Considering transfers between spouses

Spouses or civil partners may wish to make transfers of assets, as these are typically exempt from IHT. Both the nil-rate band and the RNRB may be transferable between spouses and civil partners, meaning that if the bulk of one spouse's estate passes, on their death, to the survivor, the proportion of the nil-rate band and the RNRB unused on the first death will increase the total nil-rate band and RNRB on the second death.

## Taking into account other exempt transfers

Other exempt transfers include:

- annual transfers not exceeding £3,000 (any unused amount may be carried forward one year only, to enhance the following year's exemption)
- small gifts not exceeding £250 per tax year, per person to any number of individuals
- normal expenditure out of income
- gifts to charities
- certain gifts in consideration of marriage or civil partnership.

## Making lifetime gifts

You may also significantly reduce your estate's IHT liability by making a series of lifetime gifts. As long as you survive the gift by seven years and do not benefit from the gift yourself, it escapes IHT. Gifts allow you to witness your family benefit during your lifetime.

Taper relief can also apply where lifetime gifts were made between three and seven years before death. Note, however, that the discount applies to the tax on the gift, as opposed to the gift itself.



## 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 give individuals a degree of control over the assets being gifted. Life assurance policies can be written into trust, meaning that the proceeds will not form part of the estate on your death.

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.

**As your accountants, we can assist you in minimising your IHT liability. Please contact us for more information.**

## My Year End Checklist

- Make full use of my 2019/20 ISA allowance
- Maximise available allowances across the family
- Ensure that I am extracting profits from my business tax-efficiently
- Find out how the timing of dividends and bonuses could reduce my tax bill
- Discuss ways of improving cashflow
- Put in place a tax-efficient gifting strategy
- Review and update my pension arrangements
- Re-examine my estate plan and Will
- Send my business and personal records to my accountant in plenty of time

### We are here to help...

So make good use of us! This guide is designed to help you identify some of the areas that could have a significant impact on your tax planning. Please consult us early for help in taking advantage of tax-saving opportunities. We will be delighted to assist you.

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