dns accountants

Year end tax tips

2020

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Planning opportunities

As the Tax Year is coming to a close, everyone is looking for ways to optimise their taxes.

- HMRC assesses taxes etc annually – timing can change your tax bills.
- Many allowances are allocated annually – use them or lose them.
- And finally, HMRC change their rules regularly – will this affect you?

So, what is your income and tax this year, and what do you anticipate for next year. What are your opportunities to change this and thus reduce your tax bills?

Now is the time to do an annual review, to check previous plans have worked, make new ones and rearrange your affairs if necessary.

If you want to know more or need help considering your personal position, then do contact dns accountants.

Income levels

If you are in business in your own right, whether as a sole trader, the director of a company, or just a rental property owner, then you may have the opportunity to plan the timing of your personal income and/or expenses and hence effect your personal tax bills i.e. what would happen if you took that money, made that sale or incurred that expense next year instead?

Points to look out for:

- Wages pay national insurance if you earn over £719 pm, but an employee earning over £512 in a month or a director earning over £6,136 in the year gets national insurance credits. These credits earn you entitlement to state pension & jobs seekers payments – so do not miss out.
- Student loan repayments are due at 9% if total income exceeds £18,912 (plan 1).
- Personal allowances are lost if total income exceeds £100,000 – effectively a 60% tax band in the middle of the 40%.
- One quarter of mortgage interest obtains tax relief by reducing your rental income in 2019/20 tax year but in 2020/21 year no mortgage interest will be deducted from income – 20% of sums not deducted from income may be available to reduce your tax bill.
- Capital Gains tax rates can be affected by total income levels

Reasons to increase your income before 5th April 2020

- You have not earned National Insurance credits
- You have not used your tax allowances
- You cannot make gift aid donations if you do not pay income tax

- You would pay higher tax if you postponed taking the income
- You have already triggered maximum paybacks this year, but taking the money now could stop you triggering them next year
- You have losses, investment relief or Capital Allowances to claim that would otherwise be lost
- Next year's income is uncertain but could be high e.g. Off payroll working
- Allowances no longer available e.g. CGT rule changes
- You anticipate tax rate increases in the future

Reasons to decrease your income before 5th April 2020

- You would pay lower tax if you postponed taking the income
- Only just gone into next tax bracket or triggered paybacks
- Next year's income is uncertain but could be very low e.g. want to claim tax credits
- Better tax allowances/rates next year
- Income based bills e.g. student loan repayments, child benefit rebate

Talk to your dns accountant to discuss your opportunities

Marriage allowance

If you are married and each have income of less than £50,000, then it may be to your advantage to claim the marriage allowance. This effectively transfers 10% (2019/20 - £1,250) of the Personal Allowance from one spouse to the other. This is most beneficial if the lower earner has not earned enough to use their personal allowances, as you can save up to £250

HMRC will accept back dated claims, currently to 2014/15 tax year.

Dividend allowance

Individuals may now receive £2,000 of dividends per annum tax free, irrespective of other income. If dividend income exceeds £10,000 then a personal tax return is required. Between these sums additional tax is due but may be assessed by HMRC independently of the need for a personal tax return.

Transfer of shares between spouses is usually tax neutral and can hence be used to make best use of this personal allowance. Do talk to dns accountants about the benefits for you.

Personal Savings Allowance (PSA)

Individuals may now earn a small amount of interest tax free. This personal savings allowance is dependent on total level of income for the tax year.

Total income level	PSA
Under £50,000	£1,000
£50,001 to £150,000	£500
Over £150,000	Zero

This can be a useful way to extract tax free funds if an individual has lent money to their company. The individual can charge interest to the company at the market rate.

However, the company must have had a reason to borrow, and the interest must be reported to HMRC and paid to the individual after deduction of basic rate tax. If you would like assistance with this then do contact dns accountants.

Capital gains allowances

The lettings allowance of up to £40,000 per person, on sales of property that has once been your main home, is being abolished from April 2020 – so is it time to sell and save £22,400?

From April 2020 most property that you have not lived in for over 9 months, will be subject to capital gains tax - do talk to dns accountants about your revised liabilities.

Tax on capital gains from the sale of property after 6th April 2020 will be reportable and payable within 30 days of sale. Tax on gains made before 5th April 2020 is not due until 31st January 2021. Another reason to sell early? But do be prepared.

Each year you can make up to £12,000 of capital gains tax free. Is your investment portfolio being managed to use this annual allowance? Regular selling and buying will use this tax free allowance and upgrade your base cost to reduce potential taxable gains on later sales.

If total of all capital gains in the year is less than £12,000, on sale proceeds of less than £48,000, then you do not need to report these on your personal tax return. This is a prime opportunity to sell some of those tricky investments that you would struggle to cost for a capital gains computation e.g. those with reinvested dividends, or you inherited.

Capital allowances

Equipment purchased for business may qualify for 100% capital allowance (a deduction from taxable profits and hence a reduction in income) at time of first business use. Otherwise it may qualify for just 18% or less annual allowances. Hence planning the timing and nature of large purchases can be critical for tax bills.

- There are currently 100% allowances for energy or water saving plant or machinery, but these are due to stop in April 2020. HMRC has a list of qualifying products.
- There is currently 100% allowance for most purchases of plant and machinery (including vans & lorries) up to £1m – a temporary increase from £200,000 for the period 1st January 2019 to 31st December 2020. The problem is for those whose business year end is not 31st December – these limits are pro rata so the month of purchase may be critical. Do talk to dns accountants about your plans.
- There are currently 100% allowances for purchases of new unused low or zero emission cars & new unused zero emission goods vehicles, but these are due to stop April 2021.

Pension contributions

Pension Contributions are a great way to reduce your tax bills while at the same time saving money for the future. Allowances are per annum - Currently £40,000 pa total for most people but can be as high as £120.000 or as low as £4,000 so do talk to an independent financial advisor.

Contributions via your employer, go into the pension fund tax and national insurance free.

When you personally contribute, HMRC adds basic rate tax relief direct to your fund. Higher rate relief is usually obtained via your personal tax return. This effectively gives you full income tax relief on your personal contribution, but not national insurance relief.

When you reach 55, you can start to make withdrawals; 25% of such withdrawals are tax free, only the remaining being taxed at your normal marginal tax rate at date of withdrawal.

A Small Self-Administered Scheme (SSAS) lets you get involved in choosing the investments too. Please contact dns accountants or your Independent Financial Advisor to learn more.

There are lifetime limits so if you have existing high value funds or expectations e.g. NHS or Teachers pension then please check these limits before you make any new contributions, as there can be hefty penalties if you exceed the caps by even £1.

Gift aid donations

Gift-Aid donations work in a similar way to pension contributions.

When you sign up to Gift-Aid you are advising the charity that you are a UK income tax payer. This enables the charity to obtain a basic rate tax refund on that donation. This increases every £100 you donate into £125.

You then put the donation on your personal tax return to get higher rate tax relief.

Do not forget donations to charity do not need to be cash – they could be items to a charity shop, shares or even excessive bids at a charity auction.

We do not however recommend donating your anticipated tax refunds to charity, as suggested by HMRC, because if HMRC make a mistake then the donation cannot be refunded.

Inheritance Tax (IHT) - Lifetime allowances

Every individual has lifetime gift allowances – amounts they can give away without effecting their inheritance tax bill. As follows: -

- Annual exemption – up to £3,000 (if you have not used last years allowance then you can use that this year too).
- Wedding exemption – up to £1,000 per person (£2,500 for a grandchild or great grandchild, £5,000 for a child).
- "Normal Gifts out of income" exemption – must happen regularly and not affect your standard of living e.g. regular Christmas or birthday presents or even a grandchild's school fees paid from a large monthly pension.
- Spouse exemption – there is no limit on lifetime gifts between spouses who both live in the UK permanently.
- Assistance with another's living costs e.g. elderly relative.
- Donations to charity or political parties.
- Small Gifts – up to £250 per recipient per year (if not in receipt of one of the above).

Any gift that is not tax free when made, under one of the above, could incur inheritance tax, if you die within 7 years – so do use these allowances. The recording of significant gifts and loans is recommended, including terms and allowances being used.

Individual Savings Accounts (ISAs)

ISAs are a great way to save and invest money while saving taxes. Currently up to £20,000 can be put into ISAs annually, with any income or gains from such investments being tax free. Also, income from ISAs doesn't need to be declared on your personal tax return.

There are several types of ISA you can invest in:

- Cash ISA – for investing cash
- Shares ISA – for new or existing shares
- Combinations
- Special purpose ISAs

Lifetime ISA

One special purpose ISA is a Lifetime ISA, intended for use to buy your first home or to save for later in life.

Special rules:-

- You must be aged 18 to 40 to open one.
- Up to £4,000 pa may be invested, until you're 50.
- The government will add a 25% bonus to savings deposits.
- There is a 25% penalty if you withdrawn the funds other than when:
    - Buying your first home, OR
    - Over aged 60 OR
    - Terminally ill, with less than 12 months life expectancy

Big tax bill?

Facing a big tax bill, and have plenty of spare cash? Then how about considering one of HMRC investment schemes (EIS, SEIS, VCT). Upon investing in newly issued shares, for at least 3 years, investors may enjoy a whole raft of benefits including

- Income tax bill reduction (in current and or previous year) of 30% -50% of the amount invested,
- If the money you invest was from the sale of an asset, then there may be 50% tax reliefs or 100% tax deferment available for that gain too.

Do contact dns accountants or an Independent financial advisor to know more.

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