MGT CHARTERED ACCOUNTANTS

Year End Tax Planning Guide

2019/20

With the tax year end approaching, find out how to minimise your tax bill

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Personal Income Tax

THINK ABOUT THE THRESHOLDS

If your income falls just above one of the thresholds below, you might want to reduce taxable income. You can do this in several ways including pension contributions or charitable donations.

You should also consider making use of the personal allowance for family members, especially where a family member has no other taxable income. The current personal allowance is **£12,500**.

20%	40%	45%
on taxable income up to **£37,500**	on taxable income from **£37,501** to **£150,000**	on taxable income above **£150,000**

It is also worth remembering that once your income exceeds **£100,000** you start to lose your personal allowance (by £1 for every £2 above the threshold), **this creates an effective tax rate of 60%**, so it is worth considering your options should you exceed this threshold.

A spouse's unused personal allowance can also be used to save up to **£250** in tax by transferring **20%** of the basic personal allowance to the other spouse. It is a condition that neither spouse has income above the basic rate limit of **£37,500**. The election to transfer can be made by the transferor at any time before the fourth anniversary of the end of the tax year, but it can be made in-year and reflected in a PAYE code.

What about Dividends?

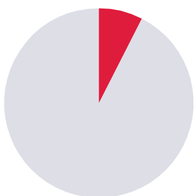
Dividends can be used as part of your profit extraction strategy from limited companies.

Make use of dividends for yourself and family members. Your first **£2,000 of dividends are tax free**, regardless of which tax band you fall into. This relief is in addition to your personal allowance.

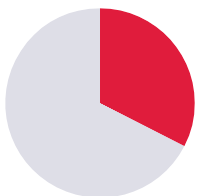
The starting rate limit of **£5,000** and the 0% starting rate for savings offer planning opportunities that should not be overlooked. For example, where investments can be transferred to a spouse with no earned income, or whose earned income is covered by the personal allowance. If an individual's taxable income, apart from savings income and dividend income, equals or exceeds the starting rate limit, the starting rate for savings cannot apply to any income.

The personal savings allowance is also available. For a basic rate taxpayer, this means that the first **£1,000** of otherwise taxable savings income is taxed at 0%. For a higher rate taxpayer, only the first **£500** is taxed at 0%. The allowance is not available to additional rate taxpayers. The personal savings allowance operates in conjunction with the starting rate for savings (which is applied first) but is available even where the starting rate does not apply. This offers opportunities for a further tax saving of up to **£200** where savings income can be generated and/or placed in the hands of a low earner.

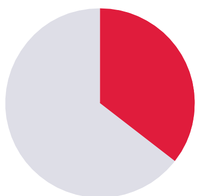
PERSONAL TAX RATE PAID ON DIVIDENDS



Basic rate taxpayers **7.5%**



Higher rate taxpayers **32.5%**



Additional rate taxpayers **38.1%**

Pension Contributions

Pensions should always be considered as part of the year-end tax planning process. They can provide an important savings vehicle and provide important tax planning opportunities. Being able to claim tax relief on contributions, benefiting from tax-free growth within a fund and being able to take a tax-free lump sum on retirement makes pensions appealing to savers.

The annual allowance limit for contributions to still obtain tax relief is £40,000. However, there may be an opportunity to use previous years' allowances.

Since 6 April 2016, you have to consider tapering. For those with incomes of **£150,000** or more the annual allowance can be reduced to a minimum of **£10,000**. The lifetime allowance is **£1,055,000**.

You may want to reduce taxable income by contributing to a pension. Remember to review the availability of any unused allowance for this current tax year.

Think about contributing up to **£3,600** into a pension scheme for a spouse, civil partner or a child, even if they have no earnings of their own, to obtain basic rate tax relief on the contributions.

Giving to Charity

Giving to charity is not only a great thing to do but a charity can **claim back an extra 25p for every £1 you donate.**

Making a donation to charity can reduce income, which may be beneficial to you. If you're a higher rate taxpayer, you can claim back the tax difference between the higher rate and basic rate on the donation.

Capital Gains Tax (CGT)

ENTREPRENEURS RELIEF

Where Entrepreneurs Relief applies, CGT is charged at **10%**. Entrepreneurs Relief applies to the sale of a sole trader or partnership business or to the sale of shares in an unquoted company. Personally held assets that have been used by a partnership or a company that you control can also be eligible for Entrepreneurs Relief. Rules surrounding Entrepreneurs Relief can be complex so seek professional advice

PROPERTY

Many people now own more than one property – whether it be commercial property for business purposes or residential property such as a bolt hole for yourself, property for children or houses you've inherited. Ownership of two homes in the UK is becoming more commonplace and with residential property you need to consider which property is your main residence (normally the one which you spend the greatest time).

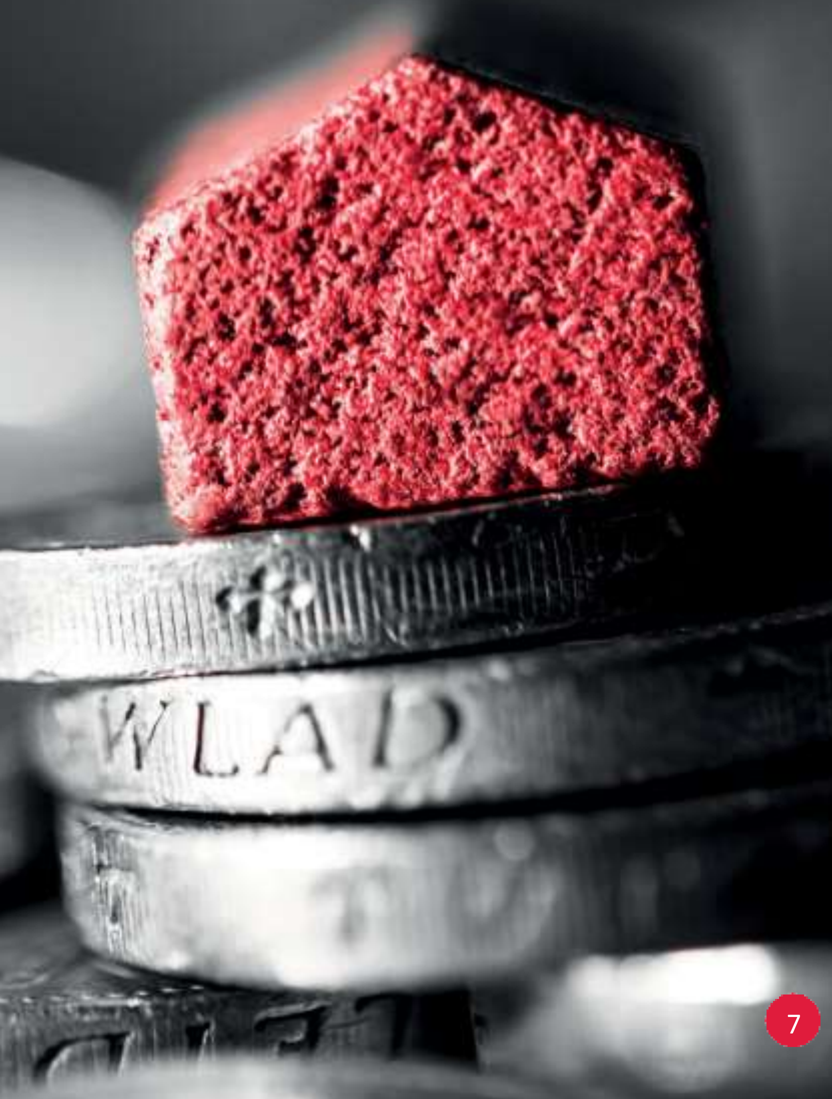
10% and **20%** rates apply to gains on commercial property. Gains on residential properties are taxed at the higher rates of **18%** and **28%**.

CGT ANNUAL EXEMPTION

Remember, you have an annual exemption of **£12,000** per tax year, meaning that you can realise gains of up to **£12,000** before paying any capital gains tax. This can be useful when disposing of divisible assets such as shares and listed investments, which could then be re-purchased within a stocks & shares ISA, where future growth will remain tax-free. It is also worth bearing in mind that assets can be transferred between spouses at no gain, no loss, enabling both spouses annual exemptions to be utilised in full when making a chargeable disposal.

Private Residence Relief

From 6 April 2020, the changes described below are expected to be made to capital gains tax relief on the disposal of a private residence (Budget 2018).



The fraction of the gain that is exempt is given by dividing (a) the length of the part period of ownership during which the dwelling-house was the individual's only or main residence, but currently inclusive of the last 18 months of the period of ownership in any event (36 months for certain disposals by disabled persons and long-term residents in a care home) by (b) the length of the period of ownership. This 18-month period is to be reduced to nine months (though the 36-month period, where it applies, will remain unchanged).

Where a residence has at any time in its period of ownership been let as residential accommodation, the part of the gain, if any, which would otherwise be a chargeable gain by reason of the letting is currently exempt to the extent of the lower of **£40,000** and the amount of the gain otherwise exempt. This lettings relief is to be reformed so as to be available only where the owner of the property is in shared-occupancy with a tenant.

Investments

ISAs

UK residents over the age of 18 can invest up to **£20,000** in an ISA. Investments can be made in a cash ISA and / or a stocks & shares ISA, provided the overall limit is not exceeded.

ISAs are a great tax-free investment as any gains from them are free of income tax and CGT.

Junior ISAs are also available for UK resident children under the age of 18 who do not already have a Child Trust Fund. You can invest up **£4,368** on behalf of a child in cash, stocks or shares. You can't withdraw from the ISA until the child reaches 18. Children aged 16 & 17 can also open a cash ISA up to **£20,000** in addition to their Junior ISA.

So, shop around for the best ISA deals and top up or use your 2019/20 ISA allowances now.

PROPERTY TAX AND SECTION 24 IMPACT

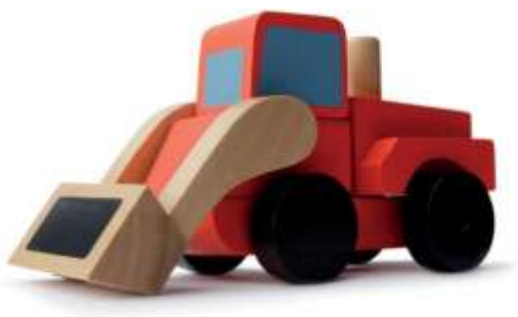
Residential mortgage interest restriction is about to take full impact now and for the foreseeable future. This means you are not allowed to deduct 100% of your residential mortgage interest cost (on BTL property) in arriving at your rental profit.

Speak to us and get the options available to you so that you can plan ahead your tax exposure with our joined-up advice in relation to IT, CGT, SDLT & IHT together with succession planning

CAPITAL EXPENDITURE

The Annual Investment Allowance (AIA) is a very useful relief for businesses. From January 2019, expenditure up to **£1,000,000** per year on certain types of plant & machinery and many fixtures and fittings will qualify for **100%** relief.

Any expenditure above the **£1m** AIA limit could attract an annual capital allowance of **18%** or **6%** (depending on the type of expenditure)



INVEST IN A START – UP COMPANY

1. Enterprise Investment Scheme (EIS)

From 6 April 2018 the EIS allowance has effectively doubled. It is now possible to invest up to £2 million in EIS, provided anything over £1 million is invested in “knowledge-intensive” companies. These are companies that carried out research, development or innovation at the time they issued, or are issuing shares. You receive an income tax deduction of up to 30% of the EIS investment and have the option to defer capital gains on assets disposed within a certain timeframe, equal to the amount invested.

2. Seed Enterprise Investment Scheme (SEIS)

You can invest up to £100,000 in the year and receive an income tax reduction of 50%, potentially wiping £50,000 off your income tax bill. Furthermore, you can claim to treat 50% of a capital gain as exempt from capital gains tax in the year you make the SEIS investment (i.e. a gain of up to £50,000).

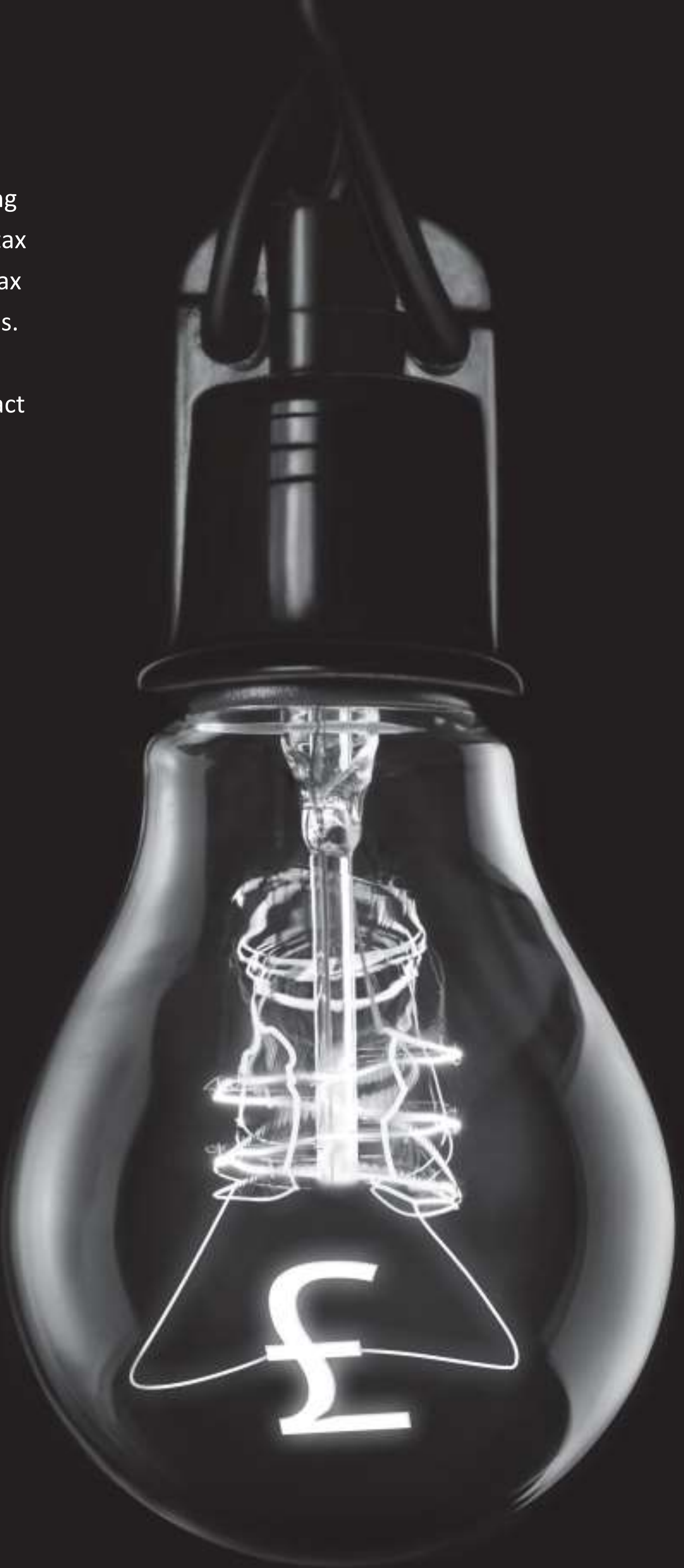
IMPORTANT: Don’t forget that it is possible to carry back any EIS/SEIS subscriptions made in the current tax year to 2018/19, providing the EIS/SEIS limit has not been exceeded in that year. As the 2018/19 Self-Assessment filing and payment deadline has now passed, this will generate a tax repayment.

3. Venture Capital Trust (VCT)

A Venture Capital Trust might be suitable for you if you are prepared to invest in higher risk funds. You can invest up to £200,000 in a year and receive an income tax reduction of 30%. However, unlike EIS or SEIS, there is no carry back.

Often the saving of tax is reliant on the timing of events, so planning is crucial. Take action before the tax year end to minimise your tax bill. But, before acting on any of the above, talk to a specialist tax advisor, who can recommend the best tax saving strategy for you and your business.

To get expert tax advice, visit our contact us page or book online.



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