

## Tax-Wise

Make the most of your valuable allowances, reliefs and exemptions

Once we enter January, the end of the 2019/20 tax year will be just over three months away on 5 April. As this date approaches, the window of opportunity reduces if you want to make the most of valuable allowances, reliefs and exemptions that could help reduce your tax bill and make sure your finances stay tax-efficient.

Some of these allowances will be lost forever if they are not used before the tax year end – and the sooner you claim them the better. Every year, some people leave end-of-year tax planning until the last minute. But leaving planning until the eleventh hour increases the risk that you will discover you have left it too late and missed out on the chance to improve your financial position.

Acting well before the tax year end means you can also be sure that you are maximising your opportunities and minimising your stress. The list we've provided below isn't exhaustive, but it highlights some of the main areas to consider if appropriate to your particular situation. If you would like to discuss your own financial position, please contact us.

### INCOME TAX

Consider making use of lower-rate tax bands. It's important to review the tax implications of transferring income-producing assets and taking note of anti-avoidance and settlements legislation.

The way you receive an income, and the rates and allowances that apply, should be at the front of your mind. How much you pay depends on where you live in the UK, with Scotland and Wales in receipt of

devolved powers to set their own Income Tax bands on top of the personal allowance.

The annual dividend allowance remains at £2,000 for 2019/20 after reducing from £5,000 this time last year. With the new personal allowance of £12,500 added to the frozen dividend allowance, the maximum tax-free income you can receive through dividends is £14,500 in 2019/20.

Some smaller amounts of income are tax-free up to annual limits. Under the Government's rent-a-room scheme, you can continue to earn tax-free income of up to £7,500 a year from letting out a furnished room in your home.

### INDIVIDUAL SAVINGS ACCOUNT (ISA) ALLOWANCE

With a Cash ISA or a Stocks & Shares ISA (or a combination of the two), you can save or invest up to £20,000 a year tax-efficiently.

If you are in a position to, it makes sense for you and your spouse to take advantage of each other's ISA allowance, particularly if one of you has more financial resources than the other. That way, you can save (in the case of Cash ISAs) or invest (in the case of Stocks & Shares ISAs) up to £40,000 tax-

efficiently in 2019/20.

Currently, 16 and 17-year-olds actually get two ISA allowances, as they're able to open a Junior ISA (which for 2019/20 has a limit of £4,368) and an adult Cash ISA. This means that you can put away up to £24,368 in your child's name tax-efficiently this tax year.

People aged 18–39 can open a Lifetime ISA, which entitles them to save up to £4,000 a year until they're 50. The Government will top up the savings by 25%, up to a maximum of £1,000 a year.

### PENSION CONTRIBUTIONS

The annual pensions allowance enables you to contribute up to £40,000 in 2019/20. If your adjusted income exceeds £150,000 in 2019/20, your annual allowance will be reduced by £1 for every £2 that exceeds this threshold down to a limit of £10,000.

Any unused pensions annual allowance can be carried forward for three tax years, providing you were a member of a registered pension scheme during that period. This unused allowance can be added to your 2019/20 annual allowance, giving a maximum pension contribution of £160,000, all of which will attract personal tax relief if you have the required level of relevant earnings.

You can also increase your basic State Pension by paying voluntary Class 3 National Insurance Contributions (NICs).

Consider contributing up to £2,880 towards a pension for your non-earning spouse or children. Tax relief is added to your contribution, so if you contribute £2,880, a total of £3,600 a year will be paid into the pension scheme, even if you earn less than this or have no income at all.

You begin to lose your personal allowance once your adjusted net income exceeds £100,000, such that the allowance reduces to £0 when adjusted net income reaches £125,000.

## INHERITANCE TAX

You can act at any time to help reduce a potential Inheritance Tax (IHT) bill when you're no longer around.

Gifts of up to £3,000 per year can be made on an IHT-free basis. The limit increases to £6,000 if the previous year's annual exemption was not used.

A married couple can therefore make IHT-exempt

## DON'T LOSE IT, USE IT

As we make our way towards the end of the tax year, now is the ideal time to review your tax affairs to ensure that you have taken advantage of all the valuable allowances, reliefs and exemptions available to you. To discuss the planning opportunities available to help you, your family and business reduce your tax bill, please contact us.

gifts totalling £12,000 – if unused, the annual allowance can be carried forward to the next tax year only. This simple technique could save a possible IHT bill of £4,800 in the event of your untimely death.

You should also consider using other annual gifts such as gifts in consideration of marriage or £250 small gifts.

Business Relief (BR) is a valuable IHT relief, with business property potentially receiving up to 100% relief if certain criteria are met. BR is an important part of succession planning, but due to the complexity of the BR rules, the relief may not be due even though you expect to meet the conditions.

It is important to regularly review your BR position to ensure that it continues to apply and that your business activities do not jeopardise your BR position.

## CAPITAL GAINS TAX ALLOWANCE

Capital Gains Tax (CGT) is a tax on the gains and profits you make when you sell something, such as an investment portfolio or second home.

Everyone has an annual allowance of £12,000 (in 2019/20) before CGT applies. Like the ISA allowance, it doesn't roll over – so if you don't use it, you'll lose out. And you may have to pay more CGT in the future.

Also, it's worth remembering the allowance is for individuals, so couples have a joint allowance for 2019/20 of £24,000. In some situations, it may be appropriate to transfer assets into your joint names so you both stay within your individual allowances. However, this is only effective if the gift is a genuine gift of beneficial ownership, and the transferor does not continue to benefit from the asset following the transfer.

Not every investment portfolio is subject to CGT.

If you're looking for a tax-efficient way to invest, a Stocks & Shares ISA could be for you. Just like any investment, it carries risk – meaning you could lose some or all of your money – but if you do make a profit due to share price increases, you won't be required to pay CGT on it. A Bed & ISA will allow you to utilise the current year's ISA allowance by moving investments from an unwrapped environment to the ISA tax-efficient wrapper. This is achieved by disposing of the unwrapped investment and repurchasing it via an ISA. The disposal of the unwrapped investments may be liable to CGT, but once inside the ISA, the investments are sheltered from CGT in the future. ■

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