Personal Year End Tax & Financial Planning Guide 2020/21

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Foreword

As the world continues to change with the health and economic ramifications of Covid-19 businesses are adapting to the operational and financial challenges that were not anticipated when 2020 began. With major changes in tax law and monetary policy aimed at supporting the economy through this period of hibernation uncertainty, the outlook and priorities of individuals, businesses, and national Government have shifted to create simultaneous opportunities to succeed in the new normal.

This guide aims to cover some of the key considerations to plan for the new tax year and for the future beyond.

Covid-19 Support

Brexit

Pensions

Savings

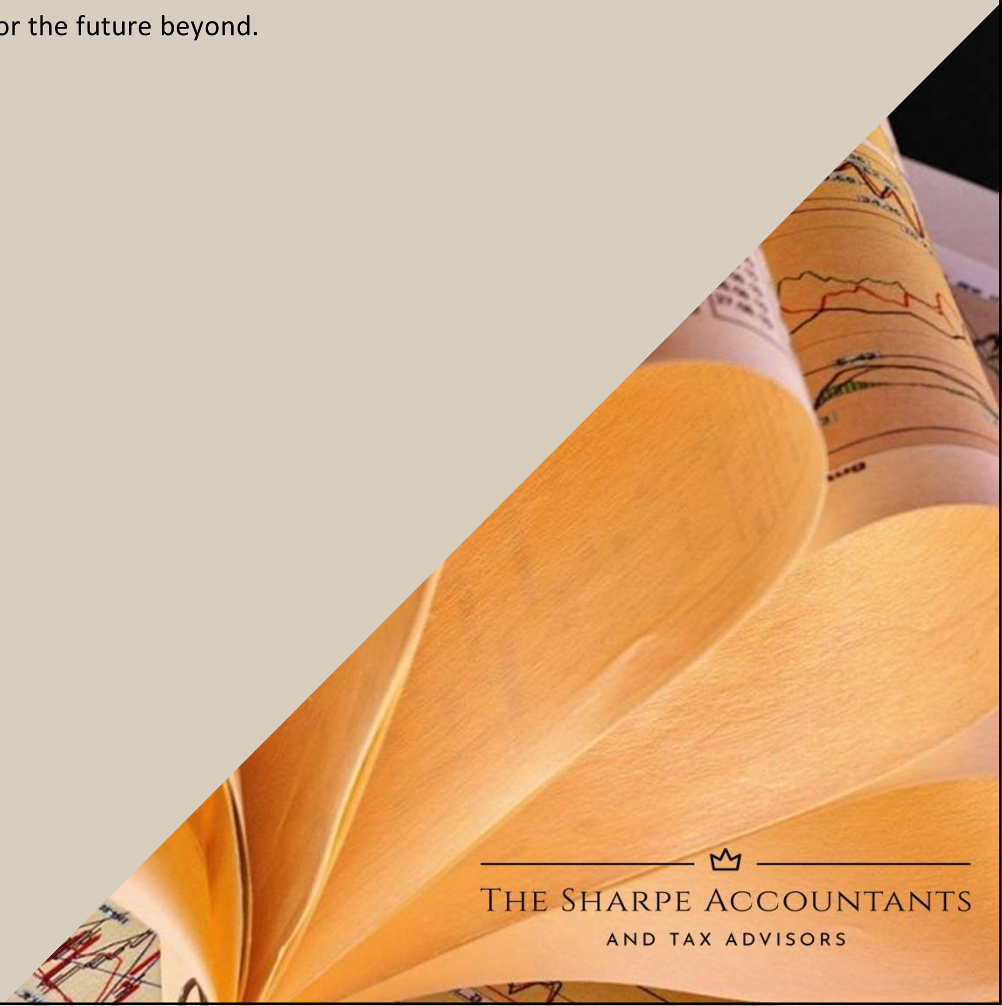
Investments

Tax on Income

Capital Gains Tax

Inheritance

Property



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Covid-19 Support

Earnings support payments

Earnings support payment schemes include the Coronavirus Jon Retention Scheme (CJRS), Self-Employed Income Support Scheme (SEISS) and the Coronavirus Statutory Sick Pay Scheme (CSSPS).

Earnings support payments are treated as taxable income of the recipient for income or corporation tax purposes. The amounts are generally reportable on Self-Assessment tax returns based on the period of receipt. For taxpayers under corporation tax, the return on which the payment is reported will depend on the company's year-end.

For individuals and most partnerships, the payments will form part of their 2020/21 Self-Assessment return. Note that there are specific provisions concerning the timing of taxation of an SEISS grant: this is taxable in the 2020/21 tax year whether or not the recipient accounts on the cash or accruals basis.

Grant funds available to businesses

Payments to businesses from grant funds such as Small Business Grants and Retail, Hospitality and Leisure Grants are added to the normal trading revenues of the recipient business. As such, the payments will only be subject to tax if the business makes a profit in the period.

Where a payment is received after the cessation of trade, the revenue is treated as a post-cessation receipt.

Clawback of support payments

A number of provisions were introduced to empower HMRC to claw back in full support payments that were wrongly claimed including the ability to levy significant penalties.

Government backed loans

Loan schemes such as the Coronavirus Business Interruption Loan Scheme and the Bounce back Loan Scheme do not represent taxable income as they are repayable. To the extent interest is charged Corporation tax relief should be available as expensed to the Income statement.

Disclaimer

The above tax analysis is based on current tax principles although the Government could introduce changes to the taxaion of Covid-19 support payments in the 2021 Budget.

Brexit

On 24 December 2020 the UK finally agreed a Free Trade Deal with the EU. Businesses craved this certainty and to have tariff and quota free trading conditions is the best possible outcome for businesses trading in and with the EU and UK.

- Under a Free Trade Deal Customs Duty tariffs will be reduced to 0% for goods originating in the UK and EU.

- Origin status will be the hot topic in 2021. The rules of origin will be critical to the tariff free movement of goods. There are complex rules relating to status being determined by the % of UK or EU content. Exporters meeting the origin rules will need to obtain a preference certificate to ensure that 0% tariffs apply.

- Combining Inward Processing Relief and preferential origin treatment is not allowed.

- Increased Import and Export procedures and paperwork may create delays

- Postponed VAT Accounting has been introduced which means that when you import goods into the UK you are not charged import VAT in order to clear your goods.

- Trading in the EU requires UK businesses to appoint an Indirect Customs Representative. This is because the UK is a non-EU country.

- Rules relating to Northern Ireland remain complex and it is unclear if movements of goods from GB to NI will still need to be declared via the Trader Support Service (TSS).

- Approved Exporter Status - To ensure your EU customers can claim the reduced duty rate a certificate or declaration of origin will be required. This can be obtained from the Chamber of Commerce or HMRC.

- A common misconception is that a business is obliged to set up a subsidiary or a new entity to be able to trade goods in the EU. This is generally not the case, unless there are reasons such as CE markings or REACH regulations to satisfy.

The starting points when selling goods to the EU:

- Who will be the importer of record?
- Your business may need to register for VAT in that country, appoint a fiscal representative and obtain an EU EORI number.

Pensions

Pensions

The annual income tax relief limit on pension contributions (personal and employer contributions) is currently £40,000 with contributions no more than £3,600 or taxable earnings whichever is greater.

Personal pension contributions attract basic rate 20% tax relief at source, but higher rate taxpayers need to claim further relief via their tax return.

Most employer schemes operate salary sacrifice benefitting from full tax relief at source with no further relief to claim via tax returns.

From 6 April 2020 the annual limit is reduced by £1 for every £2 of taxable earnings over £240,000 but the annual limits have a 4 year carry forward enabling tax free contributions of up to £160,000

To reduce your 2021 tax liability, consider additional pension contributions prior to 5 April.

Lifetime Limit

The total amount you can hold in a pension pot (Lifetime allowance) remains at £1m.

However, you can also make pension contributions in respect of family members who do not work (i.e. have no relevant earnings) or cannot afford them. If you make contributions to your children's pension schemes on their behalf, they get the tax relief and the payments are treated as reducing their taxable income.

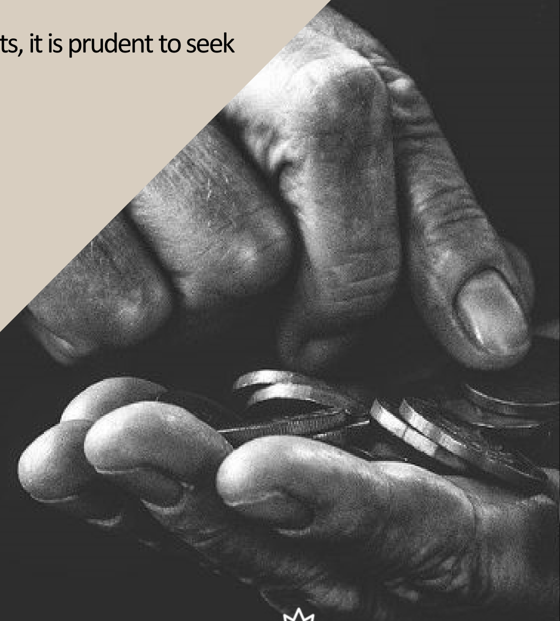
Retirement

Individuals can now access their whole pension pot at age 55 and spend, save or invest the money as they wish.

It may be possible to just take your tax-free cash entitlement (entirely or in part) and designate the remaining funds into pension drawdown which is taxable at your marginal rate of tax at that time.

You can also choose to take your pension in smaller lump sums, spread over time, to help manage your tax liability.

When considering accessing pension benefits, it is prudent to seek independent financial advice.



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Savings

Individual Savings Allowances (ISA)

The limit for 2020/21 is £20,000 per adult split between cash and stocks and shares ISAs that often come with flexibility to withdraw and replace money at any time.

Lifetime ISA

Available to any UK resident aged 18-39 with an annual contribution of up to £4,000 per tax year with the Government topping this up by 25% meaning a potential of up to £23,000 bonus. However, the bonus is lost if cash is withdrawn prior to the age of 60.

Innovative Finance ISA

An IFISA works by lending your money to borrowers in return for a set amount of interest based on the length of time you are prepared to leave your money untouched. Contributions count towards your £20,000 limit.

Junior ISA

For UK residents under the age of 18 with a limit of £9,000 split between cash and stock and shares junior iSAs.

Personal Savings Allowance

The first £1,000 of interest earned on savings is tax-free for basic rate taxpayers and £500 for higher rate taxpayers. Current interest rates mean that basic rate taxpayers could have £80,000 (higher rate: £40,000) of savings without incurring any tax.

Tip

Earn interest on ISAs

- Basic rate taxpayers over the PSA limit – For every £00 interest you earn in normal savings, you keep £80 where in an ISA you keep £100
- Higher rat taxpayers over the PSA limit – for every £100 interest you earn you keep £60 whereas in an ISA you keep £100
- Top rate taxpayers – for every £100 interest you earn you only keep £55 instead of the full £100

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Investments

Enterprise Investment Scheme Shares

Income tax relief is available for up to 30% of the sum invested. In addition, capital gains in the previous 36 months or following 12 months may be deferred into EIS shares. You can invest up to £1m under EIS in the year or up to £2m if you invest in knowledge intensive companies.

Seed EIS scheme offers income tax relief for up to 50% of the sum invested. Current tax year or prior year relief is available. No capital gains deferral relief is available under SEIS. For 2020/21, the maximum qualifying investment is £100,000.

Both EIS and SEIS shares are normally exempt from capital gains tax (CGT) and inheritance tax (IHT), subject to detailed conditions being met.

Venture capital trusts

Venture capital trusts (VCT) are specialist tax incentivized investments that enable individuals to invest indirectly in a range of small higher risk trading companies and securities. VCTs are companies in their own right and trade on the London Stock Exchange.

Income tax relief is available for 30% of the amount subscribed for new shares, subject to a maximum investment of £200,000 per tax year. This is clawed back if the investment is not held for 5 years.

Dividends received on VCT shares are income tax free

CGT exemption applies on the VCT shares

Family Investment Companies

Normal UK companies, which can be used by families who are looking to preserve family wealth, or to pass on to future generations.

Funded by directors loans the FIC can invest in income generating or appreciating assets with intergenerational shareholders with profits accumulating and taxed at lower corporation tax rates until extracted or tax-free if it represents UK dividend income.

In addition, with careful planning in relation to the use of share structure and gifting shares to future generations, it can ensure that when a child reaches 18 and needs an income, for example to fund education or a property purchase, this can be paid in the form of a dividend which may be able to use the beneficiaries dividend allowance and personal allowance which may otherwise go unused, thereby effectively providing a tax-free income.

Tax on Income

Tax Rates & Thresholds

Tax Rates & Thresholds	2020/21
Personal Allowance	£12,500
Basic rate 20% (7.5% dividend)	£37,500
Higher rate 40% (32.5% dividend)	£100,000
Additional rate 45% (38.1% dividend)	£150,000
Personal allowance taper	£100,000 - £125,000

Between £100,000 and £125,000 the effective rate of tax is 60% due to the personal allowance reducing by £1 for every £2 income is above £100,000. Within this band tax relief at 60% is available on pension contributions and gift aid payments.

The dividend tax allowance of £2,000 is available for all taxpayers. Amounts falling within the dividend allowance are taxed at 0%.

Married couples and civil partners have further opportunities for using their allowances and it should not be forgotten that children also have tax free allowances.

Between £50,000 and £60,000 child benefit is gradually lost. The charge is 1% of the full child benefit award for every £100 of income above £50,000.

If you run a business outside of a company structure, you can normally use trading losses against other income in the current or prior tax year of the loss. This could be particularly advantageous tax was paid at a higher rate in the previous year.

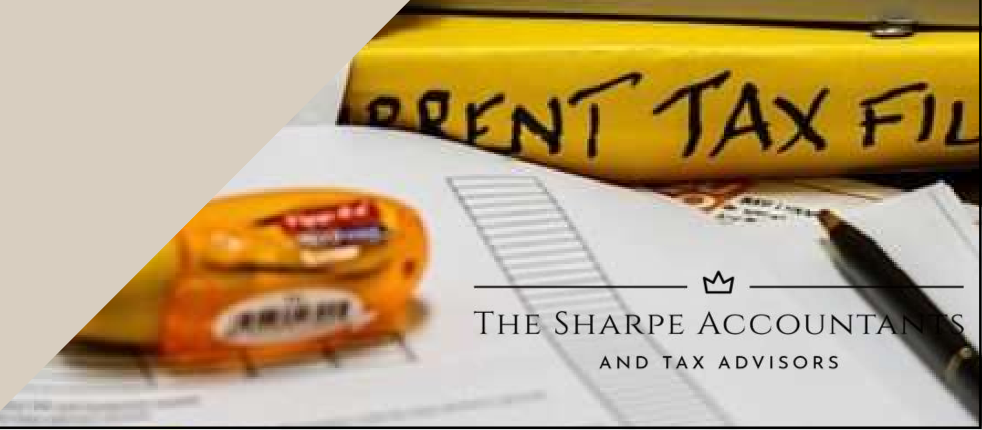
Transferring income yielding assets, or an interest in those assets, to a spouse or civil partner ensures both parties have income to use up relevant allowances. Take advice before doing this as there may be other tax implications.

Company Cars

A low emission electric or hybrid car could give rise to a benefit charge as low as 0% for 2020/21. If the car is fully zero-emission, for 2021/22 the proposed benefit is 1%, rising to 2% the year after, so it might be worth considering as a tax-effective option.

If private use fuel is not reimbursed to the employer there will be a fuel benefit in kind charge based on the CO2 emissions of the car, and in most cases, the taxable cost of the benefit outweighs the cost of actual fuel used.

Invest in capital generating rather than Income generating assets.



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Capital Gains Tax

Tax Rates & Thresholds

Tax Rates & Thresholds	2020/21
Annual Exemption	£12,300
Business Asset Disposal Relief tax rate	10%
Capital gains tax rate	10%/20%
Residential property surcharge	8%

The rate of capital gains tax (CGT) is 10%, where the total taxable gains and income is less than £37,500. Any excess gains are taxed at 20%. Where business asset disposal relief (BADR, formerly known as entrepreneurs' relief or ER) applies, the rate of tax on the whole gain is 10% subject to a £1m lifetime allowance applying to the sale of a trading business.

Residential Property

Normally any gains or losses would be reported on the self-assessment tax return by 31 January following the tax year of sale, disposals of residential property made on or after 6 April 2020 must be reported within 30 days.

Marital breakdown

If you have permanently separated from your spouse during this tax year, it is possible to pass assets between separated spouses without capital gains tax only in the year of permanent separation.

Share Planning

It is possible to utilize your annual exemption without selling shares by:

- You sell shares and your spouse repurchases them
- You sell shares and repurchase them in your ISA (subject to the annual contribution limits, currently £20,000 for 2020/21).
- You sell shares and you repurchase them after more than 30 days, accepting the market may have moved in the intervening period.

Capital gains tax overhaul

The Conservative government commissioned a review of capital gains tax in July 2020. The review recommended slashing the annual allowance (currently £12,300) and aligning rates more closely with income tax (currently 20%, 40% and 45%) in a move to raise Money for the exchequer following the COVID-19 pandemic.

There is heightened media speculation that some of these proposed changes may be implemented as soon as the next Budget.

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Inheritance

Tax Rates & Thresholds

Tax Rates & Thresholds	2020/21
Annual Exemption (prior year)	£3,000
Small Gift Allowance	<£250
Gifts out of income	0%
Marriage Gift Allowance	£1,000 - £5,000
Nil Rate Band	£0 - £325,000
Residence Nil Rate Band	£0 - £175,000

Many of the reliefs are often not utilized and regular smaller giving of wealth is often more tax efficient than larger one-off gifts.

Pensions

Pension funds and passing it to future generations is now an extremely tax efficient estate planning solution, as it combines inheritance tax (IHT) free inheritance with tax free investment returns and potential tax-free withdrawals.

Grandparent contribution to Junior ISAs can be gifted IHT free and to reduce the value of the estate.

Value of Estate

Nil rate bands are per individual and so a couple could have an estate value of up to £1m (inc the residence nil rate band) before inheritance tax is due.

Business disposals and investments

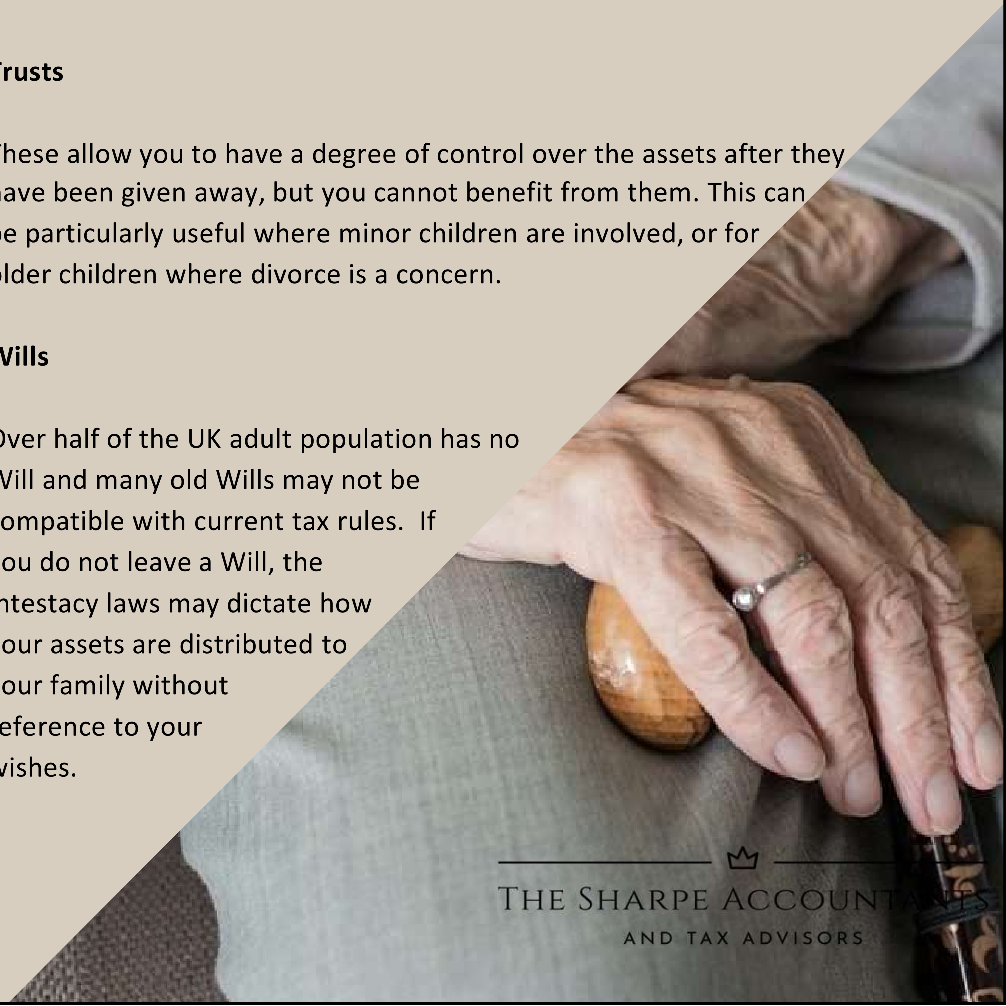
Many IHT efficient investments utilize Business relief and agricultural property relief to mitigate 50%-100% of value from the estate. Appropriate investment advice is needed for such planning, as the commercial risk needs to be considered as well as the tax benefits.

Trusts

These allow you to have a degree of control over the assets after they have been given away, but you cannot benefit from them. This can be particularly useful where minor children are involved, or for older children where divorce is a concern.

Wills

Over half of the UK adult population has no Will and many old Wills may not be compatible with current tax rules. If you do not leave a Will, the Intestacy laws may dictate how your assets are distributed to your family without reference to your wishes.



Property

Stamp Duty Land Tax

England & Northern Ireland

In England and Northern Ireland until 31 March 2021 the 0% Stamp Duty Land Tax band for your first residential property has increased to £500,000 but a 3% surcharge still applies for the purchase of additional residential properties

For residential property purchases completing on or after 1 April 2021, any non-UK resident (individual or company) buying residential property in England or Northern Ireland will have an additional 2% surcharge

Scotland

Until 31st March 2021 the first threshold for Land & Buildings Transaction Tax has been increased to £250,000. The surcharge for additional residential properties in Scotland is 4%.

Wales

Until 31st March 2021 the first threshold for Land & Buildings Transaction Tax has been increased to £250,000. The surcharge for additional residential properties in Wales is 3%.

Your main residence

The gain on your principal private residence is exempt from CGT. If you have more than one private residence, your 'main' residence will normally be the one in which you spend the greatest time.

However, it is also possible to determine that matter by nominating one of them as your main residence. This requires careful planning, since the flip side of a gain on one residence being treated as exempt is that a gain on the other residence will become chargeable.

From 6 April 2020, the final period of ownership that always qualifies for PPR has been shortened in most cases to just 9 months. This period of grace was introduced to help when people were having trouble selling their properties and has previously been reduced from 36 months down to 18 months.

In addition, where a PPR had been rented out, in many cases any gain arising for the period the property was rented was normally covered by lettings relief for PPR. Again, from 6 April 2020, lettings relief (£40K per person) is only be available where the lessee lives in the property with the owner.

Annual Tax on Enveloped Dwellings

For companies that own residential properties the ATED filing requirement for 2021/22 is 30th April 2021

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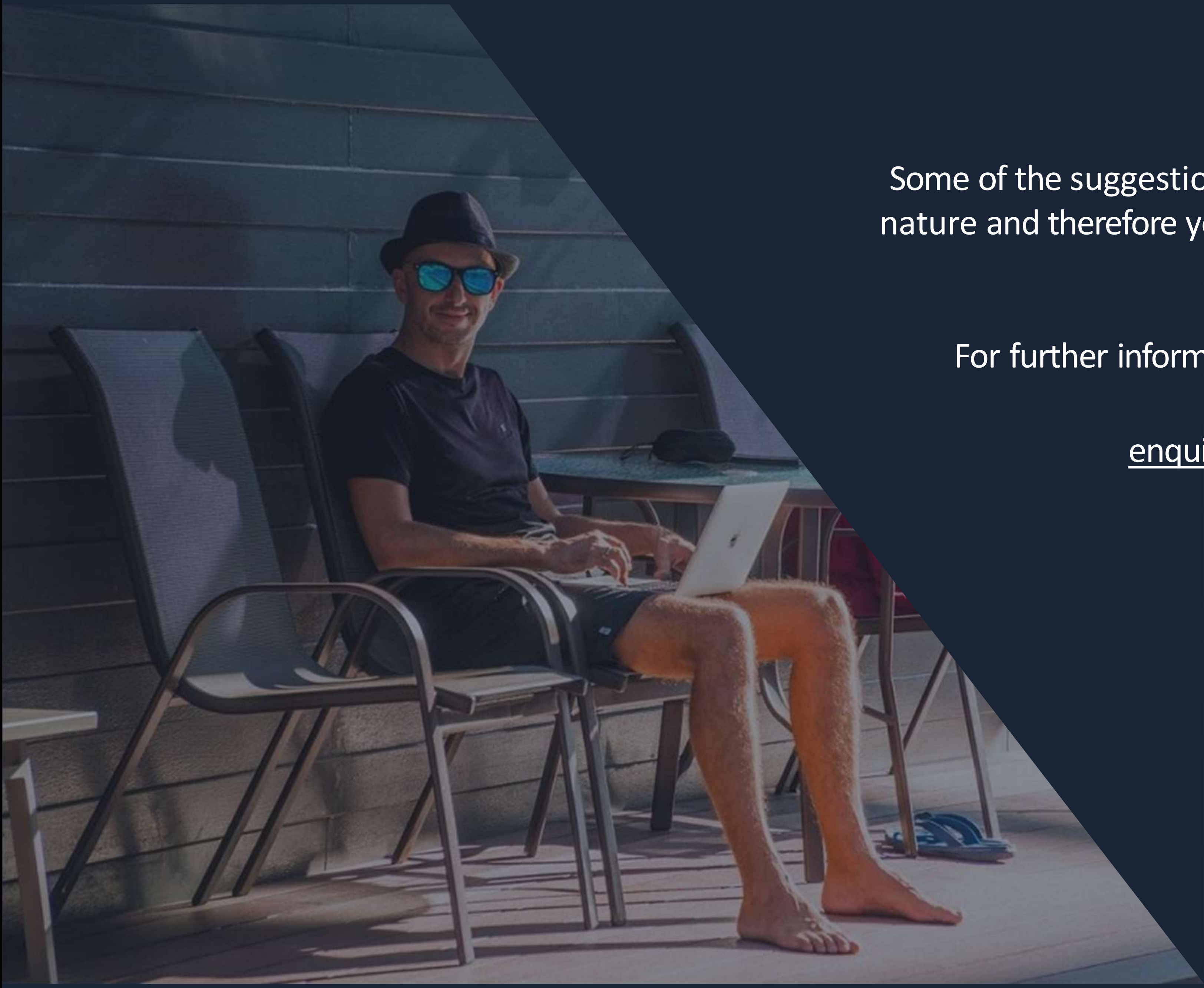
Checklist

	Year end checklist	2020/21	Considered?
1	Consider treatment of Covid-19 support payments		☐
2	Consider Brexit implications for business		☐
3	Maximise full use of own ISAs	£20,000	☐
4	Junior ISAs – parent or grandparent contribution	£9,000	☐
5	Pension contribution top-up (inc prior year carry forward)	£40,000+	☐
6	Income Tax efficient investments such as EIS	£100,000 - £1m	☐
7	Capital gains exemption utilized (inc transfers between spouse)	£12,300	☐
8	IHT gifting exemptions	£250 £3,000 £5,000 etc	☐
9	Is your Will up to date?		☐
10	Gifts to charity prior to 5 April (tax relief at highest marginal rate)		☐



Contact Us

Some of the suggestions in this guide are general in nature and therefore you should seek specific advice as soon as possible.

For further information in relation to your specific circumstances please contact enquiries@sharpe-accountants.com

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