# 10 'year end' tax planning tips

## ISA allowance – use it or lose it

Cash and investments held in ISAs are income tax and capital gains tax free. There is no limit to the number of ISAs you can have overall but you can only subscribe to one of each type of ISA each year. The ISA allowance is currently £20,000 and it can't be carried over between tax years. Therefore, it generally makes sense to use as much of your allowances as you can by 5 April.

The ISA limits are:

| ISA | 2021/22 limit |
|---|---|
| Cash, Stocks and Shares, Innovative Finance ISA | £20,000 a year |
| Junior ISA | £9,000 a year |
| Help to Buy ISA | £200 a month for existing accounts |
| Lifetime ISA | £4,000 a year (no monthly maximum amount) |

## Tax allowances for your savings

Don't overlook the other tax-free allowances for savings and investments held outside pensions and ISAs, including the Personal Savings Allowance and Dividend Allowance.

The Personal Savings Allowance is a tax-free allowance for interest payments of up £1,000 for basic rate taxpayers and £500 for higher rate taxpayers. It doesn't apply to additional rate taxpayers.

In addition, all taxpayers receive a £2,000 tax-free allowance for dividend income.

## Couples making use of personal allowances and lower rate tax bands

If you are married or in a civil partnership, you may be able to reduce your overall tax burden by organising your finances to ensure you are using both spouses' or civil partners' tax allowances and lower tax rate bands. This can be very effective if one spouse or civil partner pays tax at a lower rate than the other.

## Maximising pensions

Although investments held in your pension can grow tax-free there is a limit to the amount you can pay into your pension each year. You can contribute up to your annual allowance of £40,000 (although this tapers down to £4,000 for higher earners). Unused allowances from the last three tax years can be brought forward to allow you to make extra contributions.

Basic rate tax relief is obtained at source and higher rate tax relief is claimed via your annual tax returns. In addition retaining pension wealth within the pension fund and passing it to future generations can be a very tax-efficient estate planning solution. It combines an inheritance tax-free pot with tax-free investment returns and potential tax-free withdrawals.

In the right circumstances the net cost of making a pension contribution can be very low. Indeed, it may even change the way you utilise capital in retirement, possibly resulting in clients spending other funds before drawing down on pensions.

## Consider tax-efficient investment schemes

If you are a higher rate or additional rate taxpayer, you could also consider tax-efficient investments such as Venture Capital Trusts (VCTs), the Enterprise Investment Scheme (EIS) or the Seed Enterprise Investment Scheme (SEIS). These offer generous income tax and capital gains tax (CGT) reliefs in return for you taking investment risk in less established companies.

## For the entrepreneurial investor - Investors' Relief

Investors' relief is aimed at encouraging entrepreneurial investors to inject new capital investment into unquoted trading companies in situations where the Business Asset Disposal Relief (BADR) or EIS/SEIS reliefs do not apply. It applies a reduced 10% rate of CGT on up to £10 million of qualifying gains on shares in unlisted trading companies.

There are several qualifying conditions to be met, one of which is that the shares must be held for at least three years.

The relief can be especially useful:

- to those who have already used their life BADR allowance;
- in attracting investment into unlisted companies whose trade is excluded from EIS or SEIS;
- for investors whose shares initially qualified as EIS/SEIS shares but have since become disqualified.

## The family businesses

Dividends may represent a tax-efficient means of extracting profits by adult family members. Dividends are taxed at lower rates than employment income and do not attract NICs. However, dividends are not tax deductible for corporation tax purposes.

From 6 April 2022 the dividend tax rates will increase so that the new dividend ordinary rate will be 8.75%; the dividend upper rate will be 33.75%; and both the dividend additional and the dividend trust rates will be 39.35%. These changes will apply UK-wide.

If you are a shareholder director, excess profits may be paid out as a dividend or a bonus. Bonuses are taxed at your marginal rate of tax, and will attract both employee and employer NICs, which will also increase from 6 April 2022 as part of the new Health and Social Care Levy. However, these will be deductible for corporation tax purposes.

Consideration should be given to the most appropriate and tax-efficient method of extracting profits from the business.

Going forward, could further thought be given to including other family members such as a spouse or adult children as shareholders in the company?

## Explore the benefits of electric cars

If you're considering buying a new electric or low-emission vehicle for business use, the tax-related advantages are attractive. Fully electric vehicles generally attract 100% allowances and benefit in kind charges are only 1% (increase to 2% from 6 April 2022). In addition, no fuel benefit arises on electric chargers provided to employees by an employer at the workplace. However, the provision of private charging facilities by an employer at an employee's home would give rise to a taxable benefit.

## Selling/transferring residential property?

Remember the 60-day CGT reporting and payment regime. Since 6 April 2020 individuals, trustees and personal representatives who realise a taxable capital gain from the sale or other disposal (such as a gift) of UK residential property must make a residential property return and a payment on account of CGT. The sale or gift of a UK residential property must be reported to HMRC within 60 days of completion if a tax liability arises, and an estimated capital gains tax payment will also be due by the same date.

A return is not required for a UK resident where the capital gain is not taxable, for example, if it is covered by private residence relief. Interest and penalties will be charged if the deadline is missed. Non-residents must always complete a return.

You can read more about reporting and paying tax on UK residential property gains here. Please contact us where you are contemplating selling or gifting a property.

## Separation - marital breakdown

If you have permanently separated from your spouse or civil partner during this tax year, you may want to consider agreeing and transferring assets between you before 5 April 2022. This is because assets can pass between separated spouses or civil partners without CGT in the tax year of permanent separation. Transfers taking place after that may attract CGT. In addition, any transfers made at a loss will be 'clogged', which largely makes them redundant in practice. The alternative maybe to delay permanent separation until after 5 April.

You can read more about capital gains tax issues on separation and divorce in our article here. Please contact us for more information or to discuss in more detail.

Please note that this summary is not intended to give specific technical advice. It is designed to highlight some of the key issues rather than provide an exhaustive explanation of the topics. Professional advice should always be sought before action is either taken or refrained from as a result of information contained herein. The firm's full name and a full list of Partners is available on our website.

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