TAX YEAR END PLANNING CHECKLIST

1. **Income Tax**
2. **Capital Gains Tax**
3. **Inheritance Tax**
4. **Savings and Investments**
5. **Pensions**

As well as considering tax planning for the current tax year, it's important to put in place strategies to minimise tax throughout the next tax year. The majority of planning strategies have greatest effect if implemented before a tax year begins.

This tax year end planning checklist covers the main planning opportunities available to UK resident individuals and will hopefully help to inspire action to reduce tax for the 2019/20 tax year and 2020/21.

However, while tax planning is an important part of financial planning, it is not the only part. It is essential that any tax planning strategy that is being considered also makes commercial sense.

In this summary all references to spouses include civil partners and all references to married couples include registered civil partners.

5 Suggested Planning Points for Consideration

1. Income tax

I. Reduce taxable income below £150,000 to avoid 45% tax. Pension contributions are one of the few ways to reduce taxable income.

II. For married couples / civil partners ensure each has sufficient income to use their personal allowance: £12,500 in 2019/20.

III. The personal allowance is gradually withdrawn for individuals with income above £100,000. If income is above £100,000, then pension contributions before 6 April 2020 can reduce income to £100,000 to restore all or part of a personal allowance which would otherwise be lost.

IV. Reinvest in tax free investments, such as ISAs, to replace taxable income and gains with tax free income and gains, or investment bonds that can deliver valuable tax deferment.

    Investments delivering tax free, or potentially tax free, and/or tax deferred, income, can be beneficial for an individual in contrast to an income producing investment which might otherwise result in an erosion of personal allowances. Note that once an investment bond gain is triggered, for example, by encashment, it is included in an individual's income without top slicing when assessing entitlement to the personal allowance.

V. Redistribute investment capital between spouses / civil partners to potentially reduce the rate of tax suffered on income and gains. No capital gains tax (CGT) or income tax liability will arise on transfers between married couples or civil partners living together or where the asset to be transferred is an investment bond.

2. Capital gains tax

I. Maximise use of this year’s annual exemption (currently £12,000). Any amount unused cannot be carried forward – “use it or lose it”.

II. To defer the payment of tax for a year, make a disposal after 5 April 2020.

III. To use two annual exemptions in quick succession, make one disposal before 6 April 2020, and another after 5 April 2020.

IV. Try to ensure each spouse / civil partner uses their annual exemption. Assets can be transferred tax efficiently between spouses / civil partners to facilitate this.

3. Inheritance tax

I. Everybody has an annual exemption of £3,000 to use each tax year. Any unused annual exemption can be carried forward for one year only. So, use any available annual exemption carried forward from last year before 6 April 2020.

II. The annual £250 per donee exemption cannot be carried forward. A person can make as many outright gifts of up to £250 per individual per tax year as they wish free of inheritance tax (IHT), provided that the recipient does not also receive any part of the donor’s £3,000 annual exemption.

4. Savings and investments

Savings income and dividends

I. For married couples / civil partners ensure each has sufficient savings income to use their £500 or £1,000 personal savings allowances, and sufficient dividends to use their £2,000 dividend allowances.

II. Those able to control the amount of dividend income they receive, such as shareholding directors of private companies, could consider paying themselves up to £2,000 in dividends in tax year 2019/20 and £2,000 in 2020/21.

III. The 0% starting rate band for savings income of £5,000 is available on top of the dividend allowance and personal savings allowance. It reduces £1 for £1 by all non-savings income over the personal allowance, so people are not able to take advantage of this starting rate band where earnings and/or pension income exceeds £17,500 in 2019/20. However, if a person does qualify, ensure they have the right type of investment income (e.g. interest) to pay 0% tax.

IV. Where interest is due just after 5 April 2020, closing an account just before the tax year end can bring that interest forward to the 2019/20 tax year, which, for example, may help in making better use of any surplus personal savings allowance or nil rate starting (savings) band for the current tax year.

ISAs and Junior ISAs

I. Annual subscriptions (£20,000 and £4,368 respectively) should be maximised before 6 April 2020 as any unused subscription amount cannot be carried forward.

Investment bonds

I. Investment bonds can deliver valuable tax deferment. To minimise taxation on encashment, consider deferring the encashment until later tax years, if other taxable income is likely to be lower, or nil, or the investor is a basic rate taxpayer. In the meantime, if cash is required, the investor can use the 5% tax-deferred annual withdrawal facility.

   (Alternatively consider assigning, transferring, the bond, outright, to an adult basic rate or non-taxpaying relative before encashment.)

II. Or, it may be worth triggering a chargeable event gain before the end of this tax year, so that the liability to tax falls in 2019/20, if the taxpayer anticipates that their top tax rate in 2020/21 will be greater than this year's.

5. Pensions

I. The carry forward rules allow unused annual allowances to be carried forward for a maximum of three tax years. This means that 5 April 2020 is the last opportunity to use any unused allowance of up to £40,000 from 2016/17.

II. For high earners, check if they are likely to be subject to the tapered annual allowance and whether there is anything, they can do about it. If the client has sufficient carry forward and their threshold income is only just above £110,000, making additional individual pension contributions could reinstate their whole annual allowance. This means more pension savings and the possibility of avoiding a tax charge.

III. Making extra pension contributions not only increases pension provision, but for those who may be subject to a reduced personal allowance a personal pension contribution could claw back some of this allowance giving an effective tax saving of around 60%, more with salary sacrifice.

IV. In addition to helping high earners gain back their personal allowance, pension contributions can also help families get back their child benefit, which is progressively cut back if one parent or partner in the household has income of more than £50,000. Benefit is totally lost when income reaches £60,000.

V. The changes to the death benefit rules on pensions from 6 April 2015 should have prompted a review of the pension scheme and/or the expressions of wish regarding the recipients of pension death benefits. If this has not been done, now is the time. In theory a person's pension plan could provide income for future generations, as beneficiaries will be able to pass the remaining fund to their children and so on down the line.

VI. Individuals should consider making a net pension contribution of up to £2,880 (£3,600 gross) each year for members of their family, including children and grandchildren, who do not have relevant UK earnings. The £720 basic rate tax relief added by the Government each year is a significant benefit and the earlier that pension contributions are started the more they benefit from compounded tax-free returns.

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