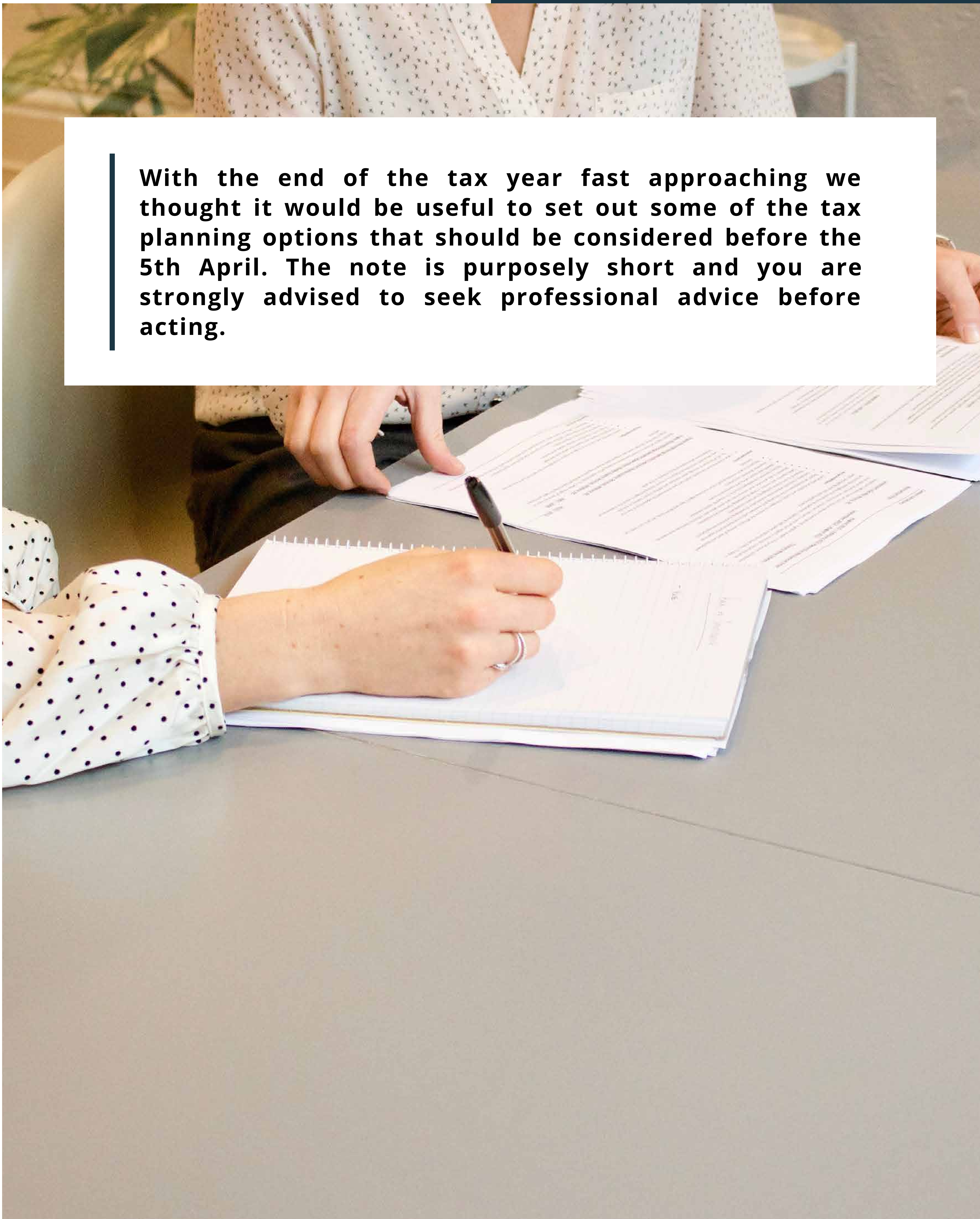
End of year tax planning

Written by Martin Crawley-Boevey
Director of Financial Planning



With the end of the tax year fast approaching we thought it would be useful to set out some of the tax planning options that should be considered before the 5th April. The note is purposely short and you are strongly advised to seek professional advice before acting.

Pensions contributions and other investment opportunities

Normally, between you and your employer, you can pay a maximum of £40,000 (the annual allowance) into your pension in a tax year before it becomes subject to tax. However, if your adjusted income is greater than £210,000 then your annual allowance falls to just £10,000. The rules are complex and if you have not already done so you should contact us so that we can help calculate the maximum pension contribution you could make. You may, for example, have unused allowances from prior years that could be used.

You may also wish to consider funding pensions for a non-working spouse, children or grandchildren as its possible for each individual to invest up to £2,880 each year even if they have no income or earn less than the personal allowance.

Whilst pension relief has been severely restricted for high earners there are a number of other investment opportunities that offer very generous tax reliefs:

Did you know?

There is currently a lot of press comment and speculation that The Budget is likely to stop or drastically reduce some tax reliefs which may be able to be claimed if action is taken now. Please speak to your PK Group adviser to find out more.

For High Net Worth, sophisticated and/or professional investors with a speculative attitude to investment risk, consideration could be given to investing into a number of higher risk products such as VCT's and EIS's. Whilst these investments are very tax efficient, they also carry additional risks which will be explained before any investment is recommended.

Types of ISA

Stocks & Shares ISA and Cash ISA

Each individual can invest up to £20,000 in the 2019/20 tax year into a stocks and shares ISA or a cash ISA (or a combination of the two). Once within the ISA "wrapper" any gains or income are tax free. Over time it's possible to build a substantial tax efficient portfolio. The allowance is annual. There is no ability to carry it forward so it's a case of use it or lose it.

Couples should try to ensure, where possible, that they each use the full allowance.

Junior ISA

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.

Lifetime ISA (LISA)

For the current tax year, the only ISA which offers upfront tax relief or credit is the Lifetime ISA which is limited to those aged 18-39. This allows you to save up to £4,000 per annum until you are 50. The government will top up the contribution by 25% up to a maximum of £1,000 per annum. The funds must be used to acquire either the first home or for retirement after 60. Investments can grow tax free within the LISA.

Annual CGT allowance

Capital gains tax (CGT) is a tax on the gains (i.e. profit) you make when you sell something, such as an investment or second home.

Everyone has an annual allowance before CGT applies. For the current tax year of 2019/20 the allowance is £12,000. The allowance can't be carried forward so it's a case of use it or lose it.

The allowance applies to each individual, so a couple have an allowance of £24,000 between them. Consider transferring an asset into your joint names (if you are married or in a civil partnership) so you both stay within your individual allowances.

Previously it was possible to sell a share on the 5th April and buy it back on the 6th April thus crystallising the gain and using the annual allowance but without changing your investment portfolio. This was known as bed and breakfasting and has now been legislated against if the shares are reacquired within 30 days.

You may wish to consider instead selling a share/fund and then acquiring it again within an ISA or selling a fund or share and then acquiring a similar fund. E.g. selling a FTSE ETF from one investment provider and buying an alternative FTSE ETF from a different provider. You may also want to consider selling the share or fund and then having your spouse acquire it (using a different broker).

As always, tax rules are complex and you should seek professional advice.

Get In Touch

You can reach us at:

Email: welcome@pkgroup.co.uk

+44 (0)20 8334 9953

Twitter: @pkgroup

LinkedIn: /pk-group_2/