Counting down

Ready for the end of the tax year?

shipleys LLP

As we approach the end of the tax year on 5 April 2021, you may be able to choose the tax year in which your income, gains or tax reliefs fall. This can affect how much tax you need to pay and when you pay it.

End-of-year tax planning is especially complicated this year. Many changes will result from the Finance Act 2021, draft clauses of which have already been published.

Further changes in the Budget that is expected on 3 March could affect whether it is better to act before 6 April or wait until later. Taking action even before 3 March might be worth considering, particularly in view of the rumoured changes to capital gains tax rates which could apply from that day.

Income tax

If your income falls just above one of the income tax thresholds below, you may want to reduce your taxable income, for example, by paying into your pension or giving money to charity. You may also want to make use of the personal allowance (currently £12,500) for family members with no taxable income.

Taxable income	Income tax rate
Up to £37,500	20%
£37,501 to £150,000	40%
Over £150,000	45%

Particular care should be taken if your income is in the £100,000 to £125,000 range, as you gradually lose your personal allowance between these amounts – £1 for every £2 over the limit.

These rates and thresholds may be changed in the Budget if it goes ahead on 3 March.

You can get income tax relief in 2020/21 for gift aid donations made by 5 April 2021 or, by election, made by 31 January 2022 before filing your 2020/21 tax return.

Income tax relief is also available on gifts of quoted shares and land to charity, but only for the year in which the gift is made. There is no capital gains tax liability on such gifts.

Capital gains tax

There are rumours of a major change to capital gains tax rates, to be announced in the Budget. It is assumed that any change would apply from 6 April 2021, but it could apply from the day of the Budget itself – there's certainly a precedent for this.

If any of your assets have become of negligible value, such as shares in companies that have gone into administration, you should consider a loss claim. In the case of shares you have subscribed for in unlisted trading companies income tax relief may be available.

'Bed and breakfasting', i.e. selling shares or securities to realise a gain covered by losses or the annual exemption and then buying them back, is not allowed if the purchase takes place within 30 days. However, these rules don't apply to shares 'reacquired' by your spouse or ISA.

Disposals of shares that result in a controlling interest in a company being held by an employee ownership trust are exempt from capital gains tax.

Capital gains tax on disposals of UK land and buildings

Non-residents already have to report disposals of direct and indirect interests in UK land and buildings within 30 days of completion and meet any tax liability at the same time.

UK residents must also report disposals within 30 days of completion, but only of UK residential property and only if there is any capital gains tax to pay.

This will be most relevant to let property, but changes to the calculation of the exemption that normally applies on disposal of your main residence may mean that it applies to a sale (or gift) of your main home, as well as second homes or investment property.

One change that affects the main residence exemption is to the letting allowance. Before 6 April 2020, if you hadn't occupied a property throughout your ownership because you let it out for a period, the exemption was reduced in proportion. Now, the allowance only applies if you shared occupation of the property during the period it was let.

The other main change is that the final period of ownership when it doesn't matter if you occupy the property is generally reduced from 18 months to nine months.

Disposals include sales, exchanges, gifts and deemed disposals by trusts.

Stamp duty land tax (SDLT)

The current reduction in SDLT on the first £500,000 cost of residential property is set to end on 31 March 2021. However, a decision may be taken at the time of the Budget on 3 March to continue it.

Inheritance tax

It's possible that a major revision to inheritance tax might be announced in the Budget. In the meantime, any planning can only be based on current legislation.

Exemption from inheritance tax on lifetime gifts normally depends on surviving at least seven years, but there are exceptions. You can give up to £3,000 in total each tax year to anyone, plus the amount of any unused allowance from the preceding year. In addition, you can give up to £250 each to any number of people each year. Gifts of assets that grow in value can save inheritance tax – even if you die within seven years – because the growth in value is in the recipient's estate, not yours.

Regular gifts out of income are exempt from inheritance tax with no limit, provided your remaining after-tax income is sufficient to maintain your usual standard of living.

However, gifts can result in a capital gains tax liability.

Non-doms

More long-term resident non-doms in the UK will become deemed as domiciled for income tax, capital gains tax and inheritance tax purposes from 6 April 2021. More detail on this and other changes affecting non-doms and offshore trusts is on our website at:

Click here

ISAs

No tax is payable on income or gains on investments within an Individual Savings Account (ISA). You can invest up to £20,000 in total each year.

A surviving spouse or civil partner may claim an extra ISA allowance equal to the value of ISA holdings of a deceased partner if they live together at the time of death.

The 'Help to Buy' Lifetime ISA is available for those saving to buy their first home. If you are aged between 18 and 40, you can save up to £4,000 a year until you reach the age of 50 and receive a government bonus of 25% on your savings used towards the cost of a first home worth up to £450,000. The money can be invested as cash or in stocks and shares, as with other ISAs, and may be taken out tax-free after the investor is 60.

EIS and other tax efficient investments

Provided you are not 'connected' with the company, you can get income tax relief at 30% on up to £1m subscribed for shares in qualifying Enterprise Investment Scheme (EIS) companies each tax year and up to a further £1m for shares in 'knowledge intensive EIS companies'. Any gain on sale of the shares is exempt from capital gains tax if they are held for at least three years. It is possible to 'carry back' all or part of the investment to the preceding tax year if the limit for relief is not exceeded for that year.

EIS and other tax efficient investments continued

Income tax relief at 50% is available on up to £100,000 each tax year subscribed for shares issued by smaller companies qualifying for Seed Enterprise Investment Scheme (SEIS) relief, provided the shares are held for at least three years, with any gain on sale exempt from capital gains tax.

Subject to timing, capital gains tax can generally be deferred by making EIS or SEIS investments, even if you are connected with the company.

Income tax relief at 30% is available on up to £200,000 each tax year subscribed for shares in Venture Capital Trusts (VCTs), provided the shares are held for at least five years.

Dividends and gains relating to shares in VCTs are exempt, subject to limits on the size of your holding.

Income tax relief at 30% is available on an investment of up to £1m in 'social enterprises'.

Specific advice should be obtained before taking action, or refraining from taking action, in relation to the topics covered.

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