



## 2019/20 Year end tax saving strategies

Reviewing your financial planning strategies ahead of the end of the tax year is always advisable. Doing so will help to ensure that your affairs are as tax-efficient as possible.

Planning for the 2019-2020 tax year-end is a little more tricky than usual, as Rishi Sunak is to deliver his first Budget on Wednesday 11 March, 25 days before the tax year ends! There was little detail in the election manifesto that promised to “redesign the tax system so that it boosts growth, wages and investment and limits arbitrary tax advantages for the wealthiest”, but the Conservatives did commit to not raising NI, income tax and VAT. There has been speculation that the Budget will target: -

1. Restricting the tax relief on pension contributions from 40% to 20% for those earning more than £50,000pa;
2. Reforming Entrepreneurs Relief;
3. Increase Capital Gains Tax rates; and
4. Overhaul the Inheritance Tax regime.

If your planning involves any of these four topics you may wish to accelerate implementation to on or before 10 March – just in case changes are introduced with immediate effect.

As your tax advisers, we can work with you to make sure your business and personal finances are in a strong position to weather whatever lies ahead. This includes planning to make the most of the tax-saving opportunities available to you, particularly ahead of the tax year end. There are many ways we can help you to lower your tax liabilities, increase your business's profitability and maximise your personal wealth.

This guide considers some tax-efficient planning strategies that you might wish to consider, including:

- making the most of the tax-efficient investment opportunities available to you and your business
- saving for a comfortable retirement
- reducing your estate's potential inheritance tax bill
- driving down the cost of business motoring.

**Not all of the ideas will be relevant to you, your family or your business. Talking to us in good time will ensure that we can discuss the tax planning opportunities available to you and help**

you manage your cash flow by giving you early warnings of any tax payments due.

**We can help you plan for a more prosperous future, whilst ensuring that you stay compliant with the taxman. Contact us today.**

**Tax planning – keep it in the family**  
Prudent use of the whole family's tax allowances in tax planning can help you reduce your tax burden.

### Use all your personal allowances

Every family member is entitled to their own personal allowance (PA), which is £12,500 for the 2019/20 tax year. A key element in tax planning is to make best use of the PA. If your spouse or partner has little or no income, you might want to consider spreading your income more evenly. This may involve transferring income or income-producing assets – but be mindful of the settlements legislation governing ‘income shifting’. Any transfer must be an outright gift, with ‘no strings attached’.



Certain married couples may also be eligible to transfer 10% of their PA to their spouse. The Marriage Allowance is available to married couples and civil partners where one spouse has income below the PA and neither spouse pays tax at the higher or additional rate. It means £1,250 can be transferred in 2019/20, reducing a couple's tax liability by up to £250 in the current year.

Children are also entitled to their own PA. However, income generated by parental gifts is subject to a limit of £100 (gross) per parent, unless the child has reached 18, or is married.

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### Losing your personal allowance

If your income exceeds £100,000 you will already be paying tax at higher rate (40% on everything except dividends) – but your personal allowances are also clawed back by £1 for every £2 by which your adjusted net income exceeds £100,000.

This means that an individual with adjusted net income of £125,000 or more will not be entitled to any personal allowance, resulting in an effective tax rate on this slice of income of 60%! If you are likely to be affected by this, you might want to consider strategies to reduce your taxable income and retain your allowances – for example, delaying income into the next tax year.

### Reducing taxable income

It is currently possible to reduce your taxable income through various strategies (for example, increasing contributions into a pension scheme or making charitable donations via Gift Aid).

This may be beneficial if you or your spouse or partner are receiving Child Benefit, and either of your incomes are expected to be between £50,000 and £60,000. Reducing income to below this level may help to eliminate the High Income Child Benefit Tax Charge, which applies at a rate of 1% of the full Child Benefit award for each £100 of income between £50,000 and £60,000.

### Extra income

Some smaller amounts of income are tax-free up to annual limits.

Under the Government's rent-a-room scheme, you can continue to earn tax-free income of up to £7,500 a year from letting out a furnished room in your home.

You can opt into the scheme if you earn more than this amount from renting a room and want to claim the allowance, although it may be more tax-efficient to deduct expenses from such income.

This also includes renting out your spare room through Airbnb, so you could take advantage of the allowance by letting a room in your main home to holidaymakers over short periods of time.

The relief is halved if you share the income, for instance, with your partner. If you let property that

does not qualify for the scheme, a £1,000 property allowance applies instead.

There's also a £1,000 trading allowance that applies to any income from trading, which could apply if you sell in small amounts on eBay or Etsy.

If you claim any of these allowances, you won't be able to deduct any business expenses.

**For further advice on tax planning across the family, please get in touch.**

### Plan now for a comfortable retirement

**Saving for a comfortable retirement is crucial. Make sure you don't run the risk of an income shortfall by making appropriate arrangements now.**

Those individuals who are not in an appropriate employer scheme should put appropriate plans into place. A handful of restrictions and allowances exist, which you are advised to consider. For personal contributions to be applied against your 2019/20 income, they must be paid on or before 5 April 2020.



The maximum annual tax relief available on annual contributions into a pension scheme is the lower of £40,000 (the annual allowance) or 100% of your relevant earnings but you can invest up to £2,880 net (HMRC will add £720 tax relief giving £3,600 gross contribution) if your relevant earnings are nil. This can be a great way for grandparents to save for their grandchildren (or parents for their children) but the funds are tied up until the child/grandchild reaches pension age.

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The annual allowance is tapered for those who have both net income over £110,000 and adjusted annual income (their income plus their own and their employer's pension contributions) over £150,000. An individual's annual allowance is reduced by £1, down to a minimum of £10,000, for every £2 of adjusted income over £150,000. Where pension savings in any of the last three years' pension input periods (PIPs) were less than the annual allowance, the 'unused relief' is brought forward.

Remember, the annual allowance drops to £4,000 per year in the first full tax year after you take any money (in excess of the tax-free cash) from your pension pot.

The overall tax-advantaged pension savings lifetime allowance is £1,055,000 for 2019/20. Where total pension savings exceed the lifetime allowance at retirement (and fixed, primary or enhanced protection is not available), a tax charge is applicable.

When planning for your later years, ensure you consider the other options that may be available to you. For example, you might wish to take into account the role of your business and/or your home in boosting your retirement funds, as well as the Lifetime ISA.

**From choosing a suitable pension scheme to accessing your funds and exploring other ways of boosting your pension savings, we can help you to secure the comfortable retirement you deserve. You should take advice to ensure that you have maximised the contributions you can make, without triggering any clawback charges or exceeding the £1.055m 2019/20 lifetime allowance. Please get in touch with us for more information.**

### Keeping your inheritance tax liability to a minimum

**Inheritance tax (IHT) is payable where an individual's estate is in excess of £325,000 (the 'nil-rate band'). Those who own their own house and have savings, business assets or life assurance policies could be liable to IHT.**

It is vital that people plan ahead to minimise their exposure to IHT. Here, we consider ways in which

individuals can currently reduce their estate's potential IHT liability.

### Outlining IHT

IHT is charged at 40% on the proportion of an individual's taxable estate exceeding the nil-rate band. An estate includes both the value of chargeable assets held at death, plus the value of any chargeable lifetime gifts made within seven years of death.



The residence nil-rate band (RNRB) applies where a residence is passed on death to one or more direct descendants (including a child, stepchild, adopted child or foster child). The RNRB is set at £150,000 for 2019/20, rising to £175,000 for 2020/21.

The additional band may only be used in respect of one residential property, which must have been, at some point, a residence of the deceased. In regard to estates with a net value above £2 million (before any reliefs such as APR/BPR are deducted), the RNRB is tapered at a withdrawal rate of £1 for every £2 over this £2m threshold. Additionally, the RNRB is available when a person downsizes or ceases to own a home on or after 8 July 2015, and assets of an equivalent value (up to £150,000 in 2019/20 or up to £175,000 in 2020/21) are passed on death to direct descendants.

### Considering transfers between spouses

UK domiciled spouses or civil partners may wish to make transfers of assets, as these are typically exempt from IHT, to equalise estates.

Both the nil-rate band and the RNRB may be transferable between spouses and civil partners, meaning that if the bulk of one spouse's estate passes, on their death, to the survivor, the

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proportion of the nil-rate band and the RNRB unused on the first death will increase the total nil-rate band and RNRB on the second death.

#### Make Use of Your Annual Allowance

Many people are understandably concerned about giving money away during their lifetime but stockpiling wealth often results in a large charge to IHT following their death.

You can make outright gifts of up to £3,000 in each tax year without IHT consequences. Any unused annual allowance from the previous tax year can be carried forward for one year. This means that if you made no lifetime gifts in the 2018/2019 tax year, you could make gifts of up to £6,000 in the 2019/2020 tax year.

Lifetime gifts to individuals in excess of this amount do not immediately result in IHT becoming payable (they are known as 'potentially exempt') but the person making the gift must survive for at least seven years from the date of the gift for it to have no negative IHT consequences.

Taper relief can also apply where significant lifetime gifts were made between three and seven years before death. Note, however, that the discount applies to the tax on the gift, as opposed to the gift itself, so it must ultimately incur a tax charge for taper to apply.

#### Regularly Gifting Surplus Income

If your net income exceeds your annual outgoings, you may be able to give away the surplus income without any negative IHT consequences. This is a valuable (and often overlooked) exemption, which, unlike the annual allowance of £3,000, is only limited by the amount of your surplus income.

To benefit from this exemption you must be able to show a clear pattern of giving, rather than just an intention to do so. You must also be able to show that the gifts were made from income and that making the gifts did not result in a drop in your standard of living.

If the conditions for this exemption are met, qualifying gifts out of surplus income are immediately exempt from IHT and there is no need to survive seven years. Because of the more complicated nature of this exemption, good record-

keeping is vital and you should review your finances regularly.

#### Settle into Trust

Unlike an outright gift, settling assets into a trust give both control and flexibility. There are often good reasons why you may not wish to make lifetime gifts, such as having young grandchildren who are not yet financially responsible enough to receive significant sums of money. Trusts can allow you to maintain control of who receives money from the trust, at the same time as removing assets from your estate.

Trusts created during a person's lifetime are subject to a separate tax regime and IHT may be charged when the trust is created, as well as on each ten year anniversary and when assets are removed from the trust. Despite these charges, the rates of IHT that apply are lower than the 40% IHT charge that arises on death.

Trusts and their tax treatment can be complex to start with, please contact us for specific advice.

#### Maximise your Pension

Under current legislation defined contribution pensions are one of the most flexible and tax-efficient vehicles for saving and passing on wealth.

It is widely assumed that IHT does not apply to pensions. Whilst this is often the case, to be exempt from IHT you must ensure that your pension passes outside your estate. The effect of this is that your pension fund isn't payable to your estate; the trustees of the pension scheme have discretion as to who benefits (in the majority of cases the Trustees will follow the wishes expressed in any nomination form that you have completed during your lifetime). Again, please contact us for specific advice if this is of interest to you.

**As your tax advisers, we can assist you in minimising your IHT liability. Please contact us for more information.**

#### Recent IHT developments:

[Feb 2020 - MPs recommend IHT cut](#)  
[July 2019 - Office of Tax Simplification recommendations](#)

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Scan codes to read articles:

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### Retaining more of your profit

It's important to reap the financial rewards that come from your hard work. Here we consider some strategies for extracting profit in a tax-efficient manner.

#### Should you choose a company dividend over a salary or a bonus?

Some may choose to take a dividend over a salary or bonus. Dividends are paid from the profits available after corporation tax is paid. A salary or a bonus is generally tax deductible for the company, carrying up to 25.8% in combined employer and employee national insurance contributions (NICs). Dividends, however, are paid free of NICs.

The Dividend Allowance (DA) is currently £2,000. The DA charges £2,000 of the dividend income to tax at 0%. The rates of tax on dividend income above the allowance are 7.5% for all UK basic rate taxpayers; 32.5% for all UK higher rate taxpayers; and 38.1% for all UK additional rate taxpayers.

If the reserves allow, you should consider making use of the £2,000 DA for all shareholders, before 5 April 2020.



### Capital Allowances

Can be claimed on a wide range of qualifying capital assets including plant and machinery, fixtures and fittings (known as integral features) and cars. A variety of allowances are currently available some of which give an immediate reduction in taxable profits of 100% of the allowable expenditure.

Capital allowance claims should be maximised where possible claiming all available allowances and thinking carefully about the timing of expenditure.

#### Other strategies to consider

You may want to consider some alternative means of extracting profit from your business, which might include:

#### Incorporation

Incorporation may give more scope for saving or deferring tax than operating as a self-employed person or partner.

Of course, incorporation may not suit all circumstances, and the 'IR35' rules specifically counter the use of 'personal service companies' to reduce tax, but we will be pleased to discuss how incorporation might apply to you and your business.

#### Tax-free allowances

Tax-free allowances, such as mileage payments, apply when you drive your own car or van on business journeys. The statutory rates are 45p per mile for the first 10,000 miles and 25p per mile above this. If you use your motorbike the rate is 24p per mile, and you can even claim 20p per mile for using your bicycle!

#### Pensions

Employer pension contributions can be a tax-efficient means of extracting profit from a company, as long as the overall remuneration package remains commercially justifiable. The costs are usually deductible to the employer and free of tax and NICs for the employee.

#### Property

Where property which is owned by you is used by the company for business purposes, such as an office building or car park, you are entitled to receive rent, which can be anything up to the market value, if you wish.

The rent is usually deductible for the employer. You must declare this on your Tax Return and pay income tax, but a range of costs connected with the property can be offset. However, receiving rent may result in a bigger capital gains tax bill if or when you decide to sell the property, as it will impact on any entitlement to Entrepreneurs Relief (CGT charged at

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Got a question and not sure who to contact? Email your question to us [hi@hhllp.co.uk](mailto:hi@hhllp.co.uk) and we'll put you in touch with a friendly expert who can help.



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10%), so care needs to be taken to weigh up the pros and cons.

For more information on extracting profit tax efficiently, please contact us.

#### Don't miss out on relief from CGT

Everyone has an annual CGT exempt amount, which in 2019/2020 makes the first £12,000 of gains free of tax. Most gains above the exempt amount are taxed at 10% where taxable gains and income are less than the basic rate limit of £37,500 (this limit may be lower in Scotland and Wales). The rate is 20% on gains that exceed this limit. For residential property gains, the rates of tax are subject to an 8% surcharge becoming 18% and 28% respectively.

You should generally aim to use your annual exempt amount by making contractual disposals before 5 April 2020. If you have already made gains of more than £12,000 in this tax year, you might be able to dispose of investments standing at a loss to create a tax loss that can be set against the gains.

If your disposals so far this tax year have resulted in a net loss, the decision whether to dispose of investments to realise gains before 5 April 2020 will depend on the amounts involved. Depending on your level of income, timing your disposals either before or after the end of the tax year could result in more of your gains being taxed at 10% rather than at 20% (or 18% instead of 28%). **The Budget on 11 March may also implement changes to the rates of CGT!**

CGT is payable on 31 January after the end of the tax year in which you make the disposal.

#### Changes to the Principal Private Residence Relief exemption

You don't generally pay capital gains tax (CGT) on the sale of your home. However, change to the rules on 'final period exemption' and the restrictions on Lettings Relief are set to bring higher numbers of property transactions within the scope of CGT.

From 6 April 2020, the final period exemption is cut to nine months from the current period of 18 months (unless you are moving into care). Similarly, Lettings Relief (currently a maximum of £40,000 per owner)

will be withdrawn unless the landlord also lives in the property.

This is expected to widen the CGT net considerably. If you are currently letting out a former home, these changes will affect you and the CGT liability on sale could be more than you are anticipating!



#### Investors' Relief

This offers relief from capital gains (CGT) for individuals other than officers and employees. It applies to gains arising on disposals of shares in unlisted trading companies that were issued on or after 17 March 2016 and that have been held for at least three years from 6 April 2016. The relief applies an effective rate of CGT of 10% to qualifying gains falling within the cumulative lifetime limit of £10 million.

#### Deferring taxation of the gain

The taxation of gains may be deferred by reinvesting in other qualifying business assets, Enterprise Investment Scheme (EIS) shares, or shares or debt issued by a qualifying social enterprise (SITR). EIS and SITR qualifying shares qualifying subscriptions give a 30% income tax reduction.

It is important to remember that the purchase of the qualifying replacement asset, EIS shares or SITR may occur up to 12 months **before** the disposal date of the gain which is being deferred and 36 months **after** the disposal date. When matching the gain with an earlier acquisition, it is essential to time the disposal so it does not fall outside of that 12-month period. This period is not connected with the end of the tax year.

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The Seed Enterprise Investment Scheme (SEIS) offers more generous reliefs to individuals investing in smaller, potentially risky early stage companies who may otherwise experience barriers to raising external finance. In addition to a 50% income tax reduction, there is also a 50% exemption from CGT for gains realised on any asset, where the gains are invested in SEIS and the other 50% of the gain is deferred. The timescales are the same as for EIS shares detailed above.

**It is important to remember that EIS and SEIS shares are high-risk investments. They may be difficult to sell and you should take specialist advice before investing.**

### Is it time to consider greener motoring?

**Government policy continues to push motorists towards greener options via a range of incentives. The latest proposal is green number plates for electric cars, which would allow their drivers more advantages. In addition, the government carried out a review into the impact of new emissions tests and has announced reduced car benefit percentages for cars tested under the Worldwide Harmonised Light Vehicle Test Procedure (WLTP) that have implications for company car tax.**



### New emissions tests

The WLTP will replace the New European Driving Cycle (NEDC) for cars registered from 6 April 2020. The WLTP is more accurate than the old test, so car manufacturers expect it to show higher vehicle CO2 emissions.

### Green benefit-in-kind rates

Following a review of the impact of the WLTP on company car tax generally, the government has confirmed that in 2020/21 for most company cars registered from 6 April 2020, the car benefit percentage rates will be two percentage points lower than the percentages for cars with the same CO2 emissions tested under the NEDC. Additionally, to accelerate the shift to zero emission cars, all zero emission models, regardless of whether they are tested under the NEDC or the WLTP or when registered, will be subject to a 0% rate. The rate for 2019/20 is 16%. Drivers of fully electric cars will pay no company car tax in 2020/21.

To encourage green motoring, the government will reduce the percentages which apply to lower emission cars, and new performance-related bands will apply to hybrid vehicles with emissions up to 50 g/km from April 2020, depending on how far the hybrid vehicle can travel under electric power.

Company cars are generally taxed as a benefit-in-kind (BiK) by multiplying the list price of the car, including most accessories, by the 'appropriate percentage'. This percentage is set by reference to the car's fuel type and level of CO2 emissions. For fully diesel cars, add a 4% supplement (unless the car meets the Euro 6d emissions standard).

Employees and directors pay tax on the provision of a company car, as well as on the provision of fuel for private mileage. Employers pay Class 1A national insurance contributions (NICs) at 13.8% on the same amount.

It may be advisable to bear these changes in mind when reviewing your car and business motoring policy.

**We can review your business motoring requirements to help keep your tax liability to a minimum.**

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**2019/20 ISA limits**

There are now several different types of ISA on the market, including the Lifetime ISA for adults under the age of 40 and Junior ISAs for those aged under 18. Individuals can invest in any combination of ISA investments up to the overall annual subscription limit of £20,000. The table below outlines the current ISA limits.

ISA	2019/20 limit
Cash, Stocks and Shares, Innovative Finance ISA	£20,000 a year
Junior ISA	£4,368 a year
Help to Buy ISA	£200 a month for existing accounts
Lifetime ISA	£4,000 a year with no monthly maximum amount

**Personal savings allowance**

Your personal savings allowance allows you to earn up to £1,000 in interest from your savings each year, without paying any tax.

This is reduced to £500 for higher-rate taxpayers, and is removed altogether for additional-rate taxpayers.

On top of this, if you or your partner have little or no earnings or pension income, you may also be able to benefit from a 0% tax rate on up to a further £5,000 of savings income.

**We are here to help...**

So make good use of us! This guide is designed to help you identify some of the areas that could have a significant impact on your tax planning. Please consult us early for help in taking advantage of tax-saving opportunities. We will be delighted to assist you.

If you are resident in Scotland or Wales, the income tax rates on income other than savings and dividend have been devolved and may be different than those stated in this guide – please check with us as necessary.

**My Year End Checklist**

Maximise available allowances across the family	
Review and update my pension arrangements	
Re-examine my estate plan and Will	
Ensure that I am extracting profits from my business tax-efficiently	
Find out how the timing of dividends and bonuses could reduce my tax bill	
Discuss ways of improving cashflow	
Put in place a tax-efficient gifting strategy	
Make full use of my 2019/20 ISA allowance	
Send my business and personal records to my accountant in plenty of time	

For advice on these tax saving strategies please contact:

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