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Tax saving opportunities

It's time to identify, plan for and potentially mitigate your tax burdens

The Government has spent hundreds of billions on measures to support businesses and jobs, and fight the coronavirus (COVID-19) pandemic. But how will it pay for these? We won't know the extent of the final bill until long after the crisis is over.

While the Chancellor of the Exchequer, Rishi Sunak, is looking to reduce the tax gap, there are nonetheless still opportunities to review your financial arrangements for saving tax throughout the tax year. Taking action now will give you the opportunity to take advantage of any remaining reliefs, allowances and exemptions before the end of the 2020/21 tax year on 5 April.

At the same time, you should be considering whether there are any planning opportunities that you need to consider either for this tax year or for your long-term future.

WHAT ARE MY TAX PLANNING GOALS?

- To reduce my current overall tax year liability
- Defer my current year's tax liability to future years, to increase availability of cash for investment, business or personal needs
- Reduce any potential future years' tax liabilities
- Maximise tax savings from allowable deductions
- Maximise tax savings by taking advantage of my available tax credits
- Maximise the amount of my wealth that stays in my family
- Minimise a potential Capital Gains Tax liability
- Minimise potential future estate taxes to maximise the amount left to my beneficiaries and/or charities (rather than the government)
- Maximise the amount of money I will have available to fund my children's or grandchildren's education, as well as my retirement plans

FIVE THINGS TO CONSIDER BEFORE THE END OF THE TAX YEAR

The end of the current financial tax year is fast approaching, which means now is the time to review your finances and make sure that you've taken advantage of all of the tax planning opportunities available to you. We've listed five things to consider before the end of the tax year.

1. Maximise tax relief on your pension contributions by using all of your annual allowance

Pensions are one of the most tax-efficient ways to save for your longer-term future. The annual allowance for 2020/21 is £40,000, but you can also use surplus allowance from the previous three tax years. Your annual allowance may be restricted to a maximum of £4,000 where your total income plus pension contributions for the year exceeds £240,000, and your net income exceeds £200,000.

For every £80 paid in, your pension provider can claim another £20 in tax relief from the government, so that a £100 contribution actually costs you just £80. Then, if you are a higher rate (40%) or top rate (45%) taxpayer you can claim up to an additional £20 or £25 respectively, making the effective cost of a £100 contribution for you as little as £60 or £55.

There's a key difference in how higher and top rate taxpayers claim tax relief however. While 20% is reclaimed at source by your pension provider, which works for basic rate taxpayers, if you're on a higher or top rate the additional amount has to be reclaimed through a self-assessment tax return and will reduce your overall tax liability at the end of the year.

If you are an employee, an alternative to reclaiming the extra through a self-assessment return is to ask HM Revenue & Customs (HMRC) for your PAYE notice of coding to be adjusted. This way your tax relief is given through a new PAYE code that extends your basic rate band.

2. Take advantage of the Individual Savings Account (ISA) investment limit to generate tax-free income and capital gains

An ISA allows you to save or invest money in a tax-efficient way. An ISA is a tax-efficient savings or investment account that allows you to put your ISA allowance to work and maximise the potential returns you make on your money, by shielding it from income tax, tax on dividends and Capital Gains Tax. The maximum annual amount that can be invested in ISAs is £20,000 (2020/21). You can allocate the entire amount into a Cash ISA, a Stocks & Shares ISA, an Innovative Finance ISA, or any combination of the three.

3. Start planning ahead for a first property or retirement

A Lifetime ISA (LISA) is a dual-purpose ISA, designed to help those saving for a first home and retirement. If you are aged 18 to 39, you can open a Lifetime ISA and save up to £4,000 tax-efficiently each year up to and including the day before your 50th birthday. The government will pay a 25% bonus on your contributions, up to a maximum of £1,000 a year. Your Lifetime ISA allowance forms part of your overall £20,000 annual ISA allowance. You can withdraw your savings from age 60 onwards, if not used to buy a home before then. A penalty of 25% may be applied if you withdrawn from your LISA if used for other purposes.

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4. Contribute up to £9,000 into a child's Junior Individual Savings Account (ISA)

A Junior ISA is a long-term savings account set up by a parent or guardian with a Junior ISA provider, specifically for their child's future. Only the child can access the money, and only once they turn 18. There are two types available: a Cash Junior ISA and a Stocks & Shares Junior ISA.

The current annual subscription limit for Junior ISAs is up to £9,000 for the 2020/21 tax year. The fund builds up free of tax on investment income and capital gains until your child reaches 18, when the funds can either be withdrawn or rolled over into an adult ISA.

5. Plan your capital gains to make best use of any capital losses

The £12,300 (2020/21) allowance is a 'use it or lose it' allowance. You can't carry it forward to future years. But remember that each individual has their own allowance, so a married couple can potentially realise gains of £24,600 this tax year without incurring any tax liability. If appropriate you could transfer assets between your spouse or registered civil partner tax-free, so it might make sense to consider transferring holdings to a spouse in a lower tax bracket or one who hasn't used their allowance.

Gains and losses realised in the same tax year have to be offset against each other, and this will reduce the amount of gain that is subject to tax. If your losses exceed your gains, you could carry them forward to offset against gains in the future, provided you have registered those losses with HMRC. ■

DON'T DELAY AND LEAVE IT TO CHANCE

When it comes to tax, knowing how best to manage your finances can be a complex task. It's important that you get it right, not only because of the financial benefits, but because getting it wrong can have serious consequences for you. To discuss your situation, don't delay and leave it to chance. Contact us for more information.