The top 9 things you should consider doing **before tax year end**

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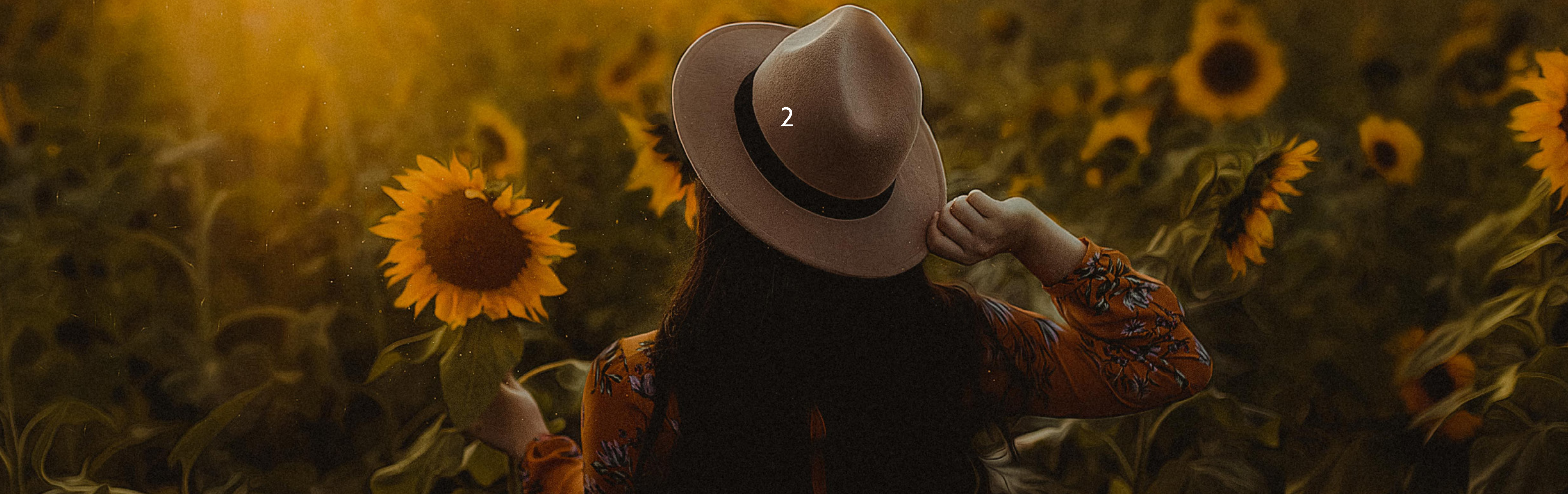

Introduction

The current tax year ends on 5 April 2020 and this date represents the final chance to use many of your annual thresholds and allowances. And, as you don't have the option of carrying forward many of these allowances, failing to use them means you lose them.

Keeping track of changing thresholds and effectively managing your allowances can be tricky. Here's your guide to the top nine things you should consider doing now in order to get 'end of tax year' ready.

1) Use up your ISA allowance

Individual Savings Accounts (ISAs) are a great way to invest and save. They're also incredibly tax efficient.

There are three main types of ISA:

- **Cash ISA -** A Cash ISA is similar to a savings account, but one where all the interest you earn is tax-free.
- **Stocks and Shares ISA -** Investing in the stock market increases the potential for growth but the risk is higher too.
- **Lifetime ISA (LISA) -** You must be aged 18-39. You can save up to £4,000 a year and receive an annual 25% bonus from the government. But you'll be penalised if you don't put the money toward buying your first house, or you withdraw before you reach age 60. A LISA can be held in a Cash ISA or Stocks and Shares ISA.

The maximum you can pay into an ISA in the 2019-20 tax year (known as the 'ISA allowance') is £20,000. This amount can be split between any ISAs you hold but remember that the annual LISA limit is £4,000.

So, for example, in a given tax year you could pay £4,000 into a LISA and split the remaining £16,000 allowance between a Cash and a Stocks and Shares ISA.

Interest earned from a Cash ISA is tax-free and any gains you make on investments in a Stocks and Shares ISA are free of both Income Tax and Capital Gains Tax (CGT).

But the allowance can't be carried over into the next tax year; if you don't use your full allowance, you lose it.

Also, be careful not to accidentally oversubscribe. If you pay more than £20,000 into your ISA during a tax year you won't get tax relief on the excess. You shouldn't need to do anything to rectify the mistake though – HMRC will contact you after April 6 and let you know what to do next.

Please note: The value of your investment can go down as well as up and you may not get back the full amount you invested. Past performance is not a reliable indicator of future performances.

If you don't use your ISA Allowance, you lose it. So, if you have unused allowance and can afford to make a top-up, consider doing this before the tax year ends.

2) Use up the allowance in your child's Junior ISA

If you've taken out a Junior ISA (JISA) for your child, it will be subject to the same exemptions on Income Tax and CGT as an adult ISA, although the annual allowance for JISAs is less. For the 2019-20 tax year, you can invest up to £4,368.

Parents can open a JISA for any child, including those born on or after 3 January 2011 and before 1 September 2002. A child born between these years would've also been eligible for a Child Trust Fund (CTF) but these were replaced by Junior ISAs and since April 2015, it's been possible to transfer a CTF into a JISA.

Your child can begin to manage their ISA from age 16 and withdraw funds from 18. Or, they can leave it where it is, at which point it would convert to an adult ISA.

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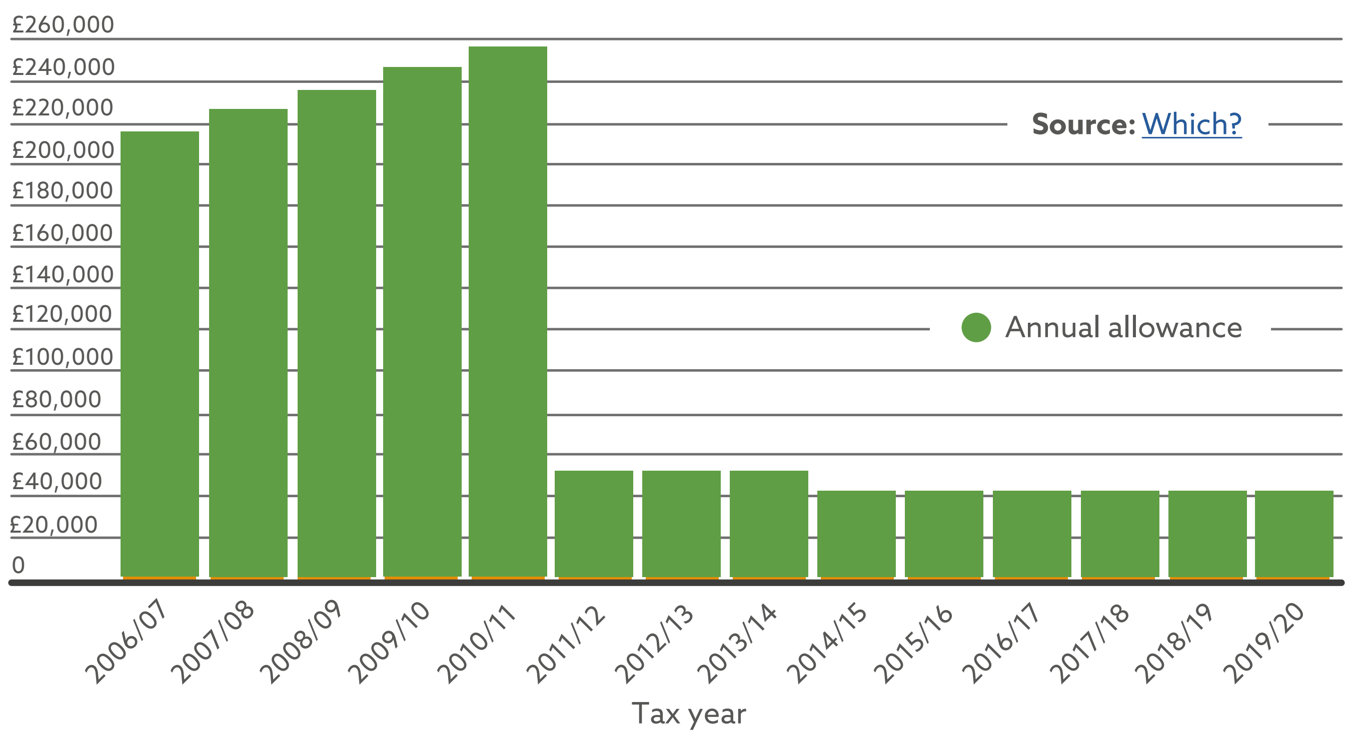
As with the adult ISA, any unused ISA allowance is lost at the end of the tax year so, if you can afford to, make full use of the JISA allowance now.

3) Top up your pension

Since 2014-15, you have been able to pay up to £40,000 (or 100% of your annual earnings, whichever is lower) into your pension during a tax year. This includes contributions made by your employer and any other third party. This amount is known as the 'Annual Allowance'.

The Annual Allowance has decreased a great deal in recent years, as demonstrated by the graph below, so knowing how much you are contributing into your pensions is crucial, especially as unused Annual Allowance can be carried forward for up to three years.



It's worth noting that different allowances may apply to you if you earn over £110,000, or if you have already 'flexibly' accessed any Defined Contribution (DC) pension savings.

The Tapered Annual Allowance reduces the standard Annual Allowance by £1 for every £2 of income you receive if your 'threshold income' is over £110,000. The reduction applies up to a maximum of £30,000 for those earning 'adjusted income' of over £210,000.

If you have already 'flexibly' accessed your DC pension (by utilising one of the new pension options that became available in 2015), you may find that your Annual Allowance has been replaced by something called the Money Purchase Annual Allowance (MPAA). This currently stands at £4,000.

It's important to know which allowance applies to you. If you're unsure, give us a call and speak to a professional.

Please note: A pension is a long-term investment. The fund value may fluctuate and can do down, which would have an impact on the level of pension benefits available. Your pension income could also be affected by the interest rates at the time you take your benefits. The tax implications of pension withdrawals will be based on your individual circumstances, tax legislation and regulation which are subject to change in the future.

If you have unused Annual Allowance from this tax year, consider topping up your pension before tax year end. If you have unused allowance from up to three years ago, use it now or it will be lost for good.

4) Pay into your child's pension

A great way to save for a child's future is by investing in a pension. It's tax-efficient, can introduce children to the concept of saving and, by starting early, can lead to significant retirement income when your child reaches retirement age.

According to This is Money, an investment of £2,880 a year for the first 18 years of your child's life could create a nest egg of £1,021,837 by the time they reach age 43. This is after investment fees but does assume a healthy investment return of 8% per annum.

The pension allowance for a child is £2,880 (the same as for an unemployed adult or someone earning less than £3,600 a year). If you contribute £2,880 you will receive tax relief amounting to an extra £720 per year, meaning £3,600 will be invested in your child's pension.

Bear in mind that pensions are inflexible. The current minimum retirement age (which could rise in the future) is 55, and benefits can only be taken from this age. This means that the money you invest will be tied up until your child retires and won't be available to help with their university fees or the deposit on a house.

As with an adult's pension, unused allowance can be carried forward by up to three years.

If you can afford to top-up your child's pension before the end of the current tax year, do so otherwise you could lose the allowance.

5) Make use of Inheritance Tax gifting

It's possible that your loved ones could be hit by an Inheritance Tax bill when you pass away. One way to mitigate this risk is to make 'gifts,' taking the gifted amount out of your estate for the purposes of Inheritance Tax calculations.

Some gifts are already exempt. You won't normally pay Inheritance Tax on gifts of up to £250, such as birthday or Christmas presents for example. You can also gift as much as you like to your spouse during your lifetime (as long as they live permanently in the UK). These are known as 'exempted gifts.'

You can also make use of the 'Annual Exemption.' This is an HMRC exemption that allows you to gift up to £3,000 a year tax-free. Gifts can include money or possessions and the £3,000 limit applies per individual, meaning couples can gift up to £6,000 a year.

The exemption can be carried forward for one year, so if you didn't use your exemption during the last tax year (2018-19), you could gift £6,000 before the end of this tax year – £12,000 as a couple (if neither of you used last year's exemption).

Please note: The Financial Conduct Authority does not regulate estate or tax planning.

Make the most of your Annual Exemption before tax year end by gifting £3,000. If you didn't use this exemption last year you can gift £6,000. Your partner's exemption is separate to yours, so if they didn't use their exemption in the last two years either, you could gift up to £12,000 as a couple.

6) Consider your Capital Gains Tax Allowance

Capital Gains Tax (CGT) is the tax you pay when you sell certain assets and make a profit. These assets could include investments or a second property, although CGT won't apply to any profits made on Stocks and Shares ISAs or, typically, the sale of your main residence.

2019/2020 capital tax gains	
Annual exempt amount	£12,000 for individuals
Standard CGT rate	18% on residential property, 10% on other assets
Higher CGT rate	28% on residential property, 20% on other assets

Source: moneysavingexpert.com

The CGT Allowance is set at £12,000 for the 2019-20 tax year. Any profits after this amount are liable for tax at the rates shown in the above table.

Being aware of the profits you've made in the tax year so far can help ensure you don't exceed the allowance.

For example, if you are planning on selling shares that give you a £20,000 gain, consider making use of your CGT allowance by selling them in two batches, during this and the next tax year.

Remember too that the allowance is for individuals, so couples have a joint allowance for 2019-20 of £24,000.

If you own a second home or a Buy to Let property, be aware of upcoming changes to the way CGT is paid. From 6 April 2020, if you sell a UK residential property where CGT is chargeable, you will have 30 days from the date of completion to pay the tax owed – previously it would have been included on your tax return.

Please note: The Financial Conduct Authority does not regulate tax planning.

Minimising the impact of CGT on your investments can be a complicated process but we're here to help. If you'd like to discuss CGT planning, contact us before tax year end.

7) Make sure you use your Dividend Allowance

Dividends are paid by a company to share out the profits they have made. If you own shares in a company, you may well receive dividend payments.

The Dividend Allowance for 2019-20 is £2,000, which means you can earn up to this amount in dividends before you pay any tax on them.

If you're a company director, you can pay yourself up to £2,000 of dividends from the business and receive these free of tax too.

If you are able to control the amount of dividends you receive, try and take up to £2,000 to benefit from receiving these without paying tax.

8) Make use of the Marriage Allowance

The Marriage Allowance allows you to transfer a portion of your Personal Allowance to your husband, wife or civil partner.

The Personal Allowance is the amount of income you can receive before you pay Income Tax. It's the same for most people but will be reduced if you earn more than £100,000. For the 2019-20 tax year, the basic Personal Allowance is £12,500.

If you are married or civil partnered and earning less than £12,500 per year you can transfer £1,250 of your Personal Allowance to your partner, thereby reducing their tax bill by up to £250 a year.

To be eligible, your partner must be earning more than you, but less than £50,000 (£43,430 in Scotland).

You can also backdate a Marriage Allowance claim to include any tax year since 6 April 2015 during which you were eligible for the Marriage Allowance. You can also claim the benefit backdated to this date if your partner has since died.

If you are eligible, make use of the Marriage Allowance by transferring a portion of your Personal Allowance to your husband, wife or civil partner. Remember that if you have been eligible at any time since the start of the 2015-6 tax year you can backdate a claim to those eligible years.

9) Make the most of the 'gifts from normal income' exemption

As we saw earlier, making gifts can reduce the value of your estate for Inheritance Tax purposes. To be eligible for the Inheritance Tax 'gifts from normal income' exemption, any gift you make must:

- Be made from income
- Be part of your normal expenditure
- Leave you with sufficient income to maintain your standard of living.

For this exemption to apply, the gifts you make must be regular in terms of frequency and value. So, it's important that you ensure these gifts are made every tax year otherwise HMRC may decide that your gifts do not satisfy the requirements of this exemption.

Keeping a record of gifts made under this exemption is important. HMRC may ask you to evidence these gifts to ensure they match the other criteria, i.e. being part of your normal expenditure and also that they have left you with sufficient income to maintain your standard of living.

Please note: The Financial Conduct Authority does not regulate tax or estate planning.

Make the most of your 'gifts from normal income' exemption. If you're struggling to keep track of your gifts, or you are worried they might be deemed ineligible by HMRC, then we can help. Contact us now.

Now's the time to act

Juggling your finances – whether that's annual allowances and tax thresholds or gifting rules – isn't easy. This can be especially true as the tax year end approaches.

A financial planner can help you make the most of any allowances and exemptions and help you to pay the right amount of tax.

If you'd like advice about any aspect of financial, tax or estate planning, please get in touch.

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