YEAR-END TAX PLANNING GUIDE 2020

Introduction

As we enter a new year and decade, it is important to make sure you are in the best financial position to protect and grow your future wealth.

Our Year-End Tax Planning Guide provides you with details of the key allowances and reliefs available to you and includes tax planning tips to consider before the tax year-end on 5 April 2020 and beyond.

Contents

MAZARS

01 Savings and investments

Individual Savings Allowance (ISA)

An Individual Savings Allowance (ISA) is a simple savings plan which offers tax-free interest payments. There is one for nearly every saver and today the ISA is still regarded as one of the best places to store your cash.

The investment limit for 2019/20 is £20,000 per adult individual and you can split this between a cash ISA and a stocks and shares ISA.

If you haven't used up your maximum allowance yet this year, make sure you top up before 5 April 2020 as your allowance doesn't roll over to the next tax year.

TIP

Everyone should have an ISA, even if it's just a basic cash ISA to dip into when you need ready cash. You should look around and compare cash ISA rates each year. If you wish to leave your money there for a few years, consider a stocks and shares ISA instead.

Lifetime ISA

The Lifetime ISA (LISA) is available to any UK resident aged between 18 and 39 and eligible savers can contribute up to £4,000 per tax year. The Government will then add a 25% bonus at the end of each tax year in respect of the contributions paid, meaning you could earn an additional £1,000 of tax-free cash annually.

The maximum bonus that could be achieved if opened at age 18 and with maximum contributions could be as much as £33,000.

If you withdraw your cash from the LISA before you are 60, other than to buy a first home or in exceptional circumstances such as terminal illness, you will lose the Government bonus.

TIP

You can split your £20,000 ISA allowance: £4,000 into the LISA and the remaining £16,000 into a cash or stocks and shares ISA.

Flexible ISA

Any ISA other than a Junior or a Lifetime ISA may allow you to withdraw and replace money from your ISA at any time. This isn't a special kind of ISA but a facility that the ISA provider may make. For example, if you've saved £20,000 into an ISA, or expect to do so, you can make a temporary withdrawal of £5,000 then replace it, topping your ISA savings for the year back up to the full £20,000. So, if you want or think you may need this flexibility, check with your ISA provider that your ISA is eligible.

Innovative Finance ISA

An Innovative Finance ISA (IFISA) lets you save with peer-to-peer lenders or invest in companies through crowdfunding websites.

An IFISA works by lending your money to borrowers in return for a set amount of interest-based on the length of time you are prepared to leave your money untouched.

You can only pay into one IFISA in each tax year, but you can also pay into a cash ISA and stocks and shares ISA as long as you do not exceed your ISA allowance (currently £20,000).

Inheritance ISA

Anyone whose spouse or civil partner has died while holding an ISA can make arrangements to take over those ISA savings without losing the tax benefits. This is in addition to any other ISA savings they may make and is not subject to the £20,000 annual investment limit or any other form of cap.

The allowance must be used within three years of the date of death, or 180 days from the completion of the administration of the estate. If you have cash of your own, you don't have to wait for probate.

This allowance is not that well known in the banking sector so do take advice if you think you are eligible.

Junior ISA

The Junior ISA (JISA) can be opened by a parent or guardian for anyone under 18 who lives in the UK and the annual limit that can be invested is £4,368 in 2019/20.

There are two types of JISA: a cash JISA, a savings account where there is no tax or interest on the cash saved; and a stocks and shares JISA, where the cash is invested and there is no tax on any capital growth or dividends received.

Children are taxed just like adults which means, if they have no other income, they can earn up to £18,500 a year from savings and investments without paying any tax. The starting savings rate is only available if your other income is less than £17,500.

TIP

Some of the best-paying cash JISAs pay a rate of 3.6% (January 2020), so it is worth encouraging grandparents and other family members to contribute to your child's JISA. In doing so, the grandparent is moving money out of their estate for IHT purposes which could be exempt if certain conditions are met.

ISA summary – all you need to know

Your ISA limit is £20,000 for 2019/20					
Ways to use your ISA allowance	**Stocks & Shares ISA**	**Lifetime ISA (aged 18-39)**	**Cash ISA**	**Innovative Finance ISA**	**Total 2019/20 ISA allowance**
Invest in a Stocks & Shares ISA only	£20,000	£0	£0	£0	£20,000
Invest in a Lifetime ISA only	£0	£4,000	£0	£0	£20,000
Invest in a combination of ISA types	Split your allowance across ISA types however you choose, as long as the combined amount doesn't exceed £20,000 and you don't put more than £4,000 in a Lifetime ISA.				£20,000
Invest in a Cash ISA only	£0	£0	£20,000	£0	£20,000
Invest in an Innovative Finance ISA only	£0	£0	£0	£20,000	£20,000

The Personal Savings Allowance (PSA)

Since 6th April 2016, almost all savings interest has been paid without deduction of tax.

The first £1,000 of interest earned on savings has been tax-free for basic rate taxpayers (£500 for higher rate taxpayers). Additional rate (45%) taxpayers do not benefit from this tax-free allowance.

Any interest you earn from bank accounts, savings accounts, credit union accounts, building societies, corporate bonds, government bonds and gifts is covered. This includes interest earned on other currencies held in UK based savings accounts.

This is extremely beneficial as a basic rate taxpayer could have almost £80,000 of savings in an account paying 1.3% per annum and pay no tax at all on the interest received. A higher rate taxpayer could have savings of almost £40,000.

TIP

Earn interest in ISAs

- **Basic rate taxpayers over the PSA limit** – For every £100 interest you earn in normal savings, you only get to keep £80, whereas in an ISA you will keep the full £100.
- **Higher rate taxpayers over the PSA limit** – For every £100 interest you earn in normal savings you only keep £60, whereas in an ISA you get to keep the full £100.
- **Top rate taxpayers** – For every £100 interest you earn in normal savings you only keep £55, whereas in an ISA you keep the full £100.

Investment Reliefs

There are attractive income tax reliefs of between 30% and 50% available for investments in Venture Capital Trusts (VCT), Seed Enterprise Investment Schemes (SEIS) and Enterprise Investment Schemes (EIS).

	EIS 2019/20	VCT 2019/20	SEIS 2019/20
Income tax			
Maximum investment	£1,000,000 (£2,000,000)*	£200,000	£100,000
Tax relief	30%	30%	50%
Holding period	3 years	5 years	3 years
One year carryback	Yes	No	Yes
Dividends	Taxable	Exempt	Taxable
Capital gains tax	Gains exempt after 3 years	Gains exempt	Gains exempt after 3 years
Capital gains tax deferral relief	Yes	No	No
Capital gains tax holiday	No	No	No

**increased limit only if anything above £1million is invested in knowledge-intensive companies.*

Capital Gains Tax

Everyone has a Capital Gains Tax free allowance of £12,000 in 2019/20.

- If you haven't already realised gains of this amount, are there any assets that could be sold before the 6th of April 2020?
- If you have used up your allowance, consider deferring selling assets until the next tax year.
- If your spouse is a basic rate income taxpayer, gains on assets transferred to them will only attract tax at the lower 10% CGT rate (with the exception of residential property at 18%) to the extent of the unused income tax basic rate band.

TIP

If you have substantial investments, seek advice to understand if it is possible to restructure these so that they produce either a tax-free return or a return of capital taxed at a maximum of only 20% under CGT, rather than income tax at up to 45%.

Saving for Children

It's never too soon to start children with saving habits, but there are ways to make sure the whole family benefits.

- JISAs or Child Trust Funds (CTFs) enable parents or grandparents to save up to £4,368 a year, tax-free, for each of their children or grandchildren.
- Think of taking out a stakeholder pension. They allow contributions to be made by, or for, all UK residents, including children. You can make a net contribution of up to £2,880 (effectively £3,600 gross) each year for members of your family, even for those who do not have any earnings.
- Start as soon as possible - Investing £2,880 per annum from age 10 could potentially build a pension pot of around £1 million by their 68th birthday.
- You could help fund their LISA (see above) and in doing so potentially reduce your IHT bill.

TIP

Both the JISA and CTF are savings accounts that are tax-free, for both interest earned on cash and any increase in value of the funds making them a tax-efficient savings plan.

Outside these tax-free wrappers, interest earned on children's savings can be taxable on the parent; if cash deposited into a savings account from a parent or step-parent produces more than £100 gross income a year, all of the interest is treated as the parent's income and taxed at their higher rate of tax.

Many grandparents are happy to give cash gifts to the grandchildren and are not affected by the £100 rule. On the safe side, open an account that is separate from one funded by the child's parent/step-parent so there can be no argument where the funds came from.

Savings tips for higher earners

Income over £150,000 per annum is taxed at 45% but because you lose the personal allowance, income between £100,001 and £125,000 is taxed at an effective top rate of 60%.

We recommend you consider the following tips to reduce your tax bill:

- Individuals with income near these thresholds could cut their tax liabilities by reducing the taxable income below £125,000 or £150,000. This could be done by making pension contributions or payments to charities or community amateur sports clubs all of which will reduce your taxable income.
- If you can vary your income, for example, by maximising tax relief claims or business investment, you can reduce your 2019/20 income tax payments on account. If this year you expect to earn less than the last or will have substantial tax relief claims, then your payments on account due on 31st of January and 31st of July 2020 could be reduced. Include them on your tax return as a higher rate taxpayer, in order to get the tax relief.

Savings tips for higher earners

- Current low CGT rates favour converting income-producing investments into capital appreciating ones but watch out for changes in Government policy and take advice before making any changes.
- You may be able to transfer private company shares to use exemptions and rate bands of your spouse or civil partner and other family members but seek advice about any tax consequences of doing so.
- Consider transferring income-yielding assets to your spouse or civil partner who may pay tax at a lower rate or pay no tax at all. If this isn't possible, ask your adviser for ways to turn your income into more tax-efficient forms.
- CGT is charged at 10% or 20% depending on your circumstances. Consider transferring assets to a spouse or civil partner who may pay tax at the lower rate. Higher CGT rates (18% and 28%) apply to certain residential property disposals.
- If you own a trading business, Entrepreneurs Relief (ER) can reduce your rate of CGT to 10% instead of 20%, up to a lifetime limit of £10 million capital gains. The rules are complex, and ER is currently overshadowed by possible reform or even abolition. Also, most planning needs to be in place two years before disposal so you must talk to your adviser.
- If you're thinking of investing in someone else's business, find out if the shares will qualify for Investors Relief (IR) when you dispose of them. IR is a bit like ER but for people who don't work in the business and like ER, it offers a reduced 10% CGT rate on gains up to a lifetime limit of £10 million (this is on top of your ER limit).

Tax-Free Dividend allowance

Individuals are entitled to a tax-free dividend allowance of £2,000 per annum. Dividends above this level are taxed at 7.5% for a basic rate taxpayer, 32.5% for a higher rate taxpayer and 38.1% for an additional rate taxpayer.

It is worth ensuring that any dividends held by the family are held in the hands of the lowest tax ratepayer so that you can pay the least amount of tax.

02 Planning for retirement

Whilst there has been greater flexibility in how you spend your pension, how you save into it has never been more complicated.

There are steps you should take before 5 April 2020 and others you need to be aware of in general to make sure you get the most from your pension pot.

Annual Pension Allowance

For many people, the annual pension allowance, the amount you can save in your pension tax-free every year, is £40,000.

However, special 'carryforward' rules mean you may be able to contribute more, up to four times as much.

'Carryforward' rules allow you to use up any unused annual allowance going back three years, tax-free, including both personal and employer contributions.

To take advantage of the rules, you must have been a member of a pension scheme during the tax year from which you intend to bring forward the allowance. The annual allowances in previous years were as follows:

- 2016/17 – £40,000
- 2017/18 – £40,000
- 2018/19 – £40,000

On a practical level, you need to deduct from the maximum allowance, any contributions made in each tax year by you and/or your employer.

Personal "tax-relievable" contributions are also limited to the greater of £3,600 gross per annum, or 100% of your relevant UK earnings, in the tax year that the contribution is paid.

The amount you can contribute is dependent on your personal circumstances and the rules are complex, it's important you take advice.

Pension Schemes

If you're unable to save a lot of money in this tax year but want to contribute towards your retirement, think of setting up a pension scheme now (before the end of the tax year), even with a small amount such as £100.

The carryforward rules stipulate that you must have been a member of a pension scheme on a particular date. Even with a modest amount, you are essentially opening a pension scheme to enable you to shelter and grow your contributions, perhaps even above future allowance cuts.

A contribution of £100 this year means that in the next tax year 2020/21, you could have a £40,000 allowance for that year plus a carryforward allowance from 2019/20 of £39,900.

This is particularly useful for the self-employed, but a lot of senior employees/ directors still do not have any form of pension provision and have even opted out of auto-enrolment schemes. Membership of such a scheme would qualify as a registered scheme and open the carryforward provisions for later years.

Inheritance Tax

In the past when someone aged 75 or over died, their pension fund could be given to anyone with a one-off tax charge of up to 55%.

Since 6 April 2015, the individual inheriting the pension fund pays tax at their personal marginal rate on any money withdrawn from the pot.

In effect, tax could be payable at a rate as low as 20% or even nothing if the income is covered by their personal allowance. However, some older pension schemes don't allow the full payment flexibility and may force the person who inherits to receive the cash as a lump sum. This could push the recipient into a higher tax bracket.

If the owner of the pension dies before they are 75, the funds can be passed onto beneficiaries' tax-free whether the fund has been touched or not.

TIP

Consider maximising your own or your family's pension contributions rather than giving away cash to mitigate IHT, assuming the contributions are made to your pot. This can give you the advantage of reducing your estate through "normal expenditure out of income" and keeping funds available to draw on later.

Flexible Pensions

Up to 25% of a pension fund can normally be taken as tax-free cash, however, if you don't need it up front, you can often draw it in stages. This is known as 'phasing' to give more tax-free 'income' each year, blending it with taxable income to use allowances effectively.

Of course, it's possible to just take tax-free cash to meet income needs in the early years, for example, paying off your mortgage when you retire. However, it's important to consider not just what results in the least amount of tax today, but the impact on tax due in the future.

Take into consideration the following:

- ISAs give easy access to tax-free money whenever it's needed - no strings attached.
- Collective investments don't benefit from gross roll-up like pensions or ISAs and gains are subject to CGT. However, they open up access to the annual CGT allowance and dividend allowance, which unlock more options to create tax-efficient 'income'.
- Investment bonds allow 5% tax deferred withdrawals each year and offshore bond gains are taxed as savings income, unlocking access to the savings allowances.
- Your State Pension can be deferred, but it's subject to income tax when taken. This might be the time to turn down drawdown income to make best use of allowances.
- NS&I provide a lot of tax-free vehicles but the appeal of these has been somewhat diminished by the saving allowance now generally available.
- Property, including the family home, can offer diversification and another source of wealth to draw on but can be costly particularly if used as buy to let.

Pension Lifetime Allowance (LTA)

The Pension Lifetime Allowance (LTA), the amount of tax relieved pension savings you can accrue during your lifetime has been severely reduced in recent years.

Some pension schemes may benefit from protection which preserves former LTAs of up to £1.5million. These protections may be useful if you have a pension pot which already exceeds £1million or may exceed £1million at retirement, even if you stop your pension saving now.

TIP

The LTA for 2019/20 is £1,055,000 rising to £1,073,000 in 2020/21. Do take professional advice if you are close to your £1million limit to see if there are other savings options that you can make and avoid being hit by a penalty tax charge.

Inheritance

- You can make gifts of up to £3,000 each year, free from IHT. You may also use any unused allowance from the previous year.
- You can make as many gifts as you like of up to £250 each to other recipients, as well as gifts on marriage.
- Regular gifts that are "normal expenditure out of income" may be made IHT free. Make sure to plan and document that you are making regular gifts that will not reduce your normal standard of living and don't depend on you depleting your capital. Take tax advice before embarking on this plan to ensure those gifts are free from IHT.
- Invest in assets that qualify for relief. If you own a business or invest in unquoted trading companies, you may be entitled to IHT business relief.
- Investments based on property hardly ever qualify for business relief. It may be worth reviewing your investment strategy to see if you might be better off switching to assets that do get business relief or agricultural relief or forestry relief. There may have to be a trade-off between the investment returns and the potential for saving IHT but seek advice from your investment adviser.

Wills

Over half of the adult UK population has no Will and many old Wills may not be compatible with current tax rules.

Make writing or reviewing your Will a priority. If you do not leave a Will, the intestacy laws may dictate how your assets are distributed to your family without reference to your wishes. A good Will should give your family flexibility and protection and may even give them the opportunity of saving tax in the future.

If you already make substantial gifts to charity, you can either make lifetime gifts that save tax at your top income tax rate or include them in your Will. If you leave at least 10% of your net estate to charity, your Executors may only have to pay a reduced rate of IHT of 36%, rather than 40%.

Trusts

In many family situations the use of a formal trust can help you protect and enhance your family's future finances.

Appointing trustees to manage assets on your behalf can have both practical and tax advantages as well as ensuring that family assets are protected after your death (both in the UK and overseas).

The timing of creating a trust can have significant tax implications so if you have long-term financial goals, the sooner you seek expert advice on your options the better.

TIP

If you have already settled one or more trusts, take advice before you add any more to those trusts as there are potential tax implications. The government is still looking at how to make taxation of trusts simpler, fairer and more transparent.

IHT and the family home

The Residence Nil Rate band (RNRB) came into effect on deaths on or after 6 April 2017. It is available if your estate includes your family home and this is left to your children, grandchildren or other lineal descendants.

The sum of RNRB is limited to the value of the home, which will rise to £175,000 on 6 April 2020 (£150,000 2019/20). The RNRB is tapered for estates over £2 million.

This relief is one of the most complicated tax reliefs to have been devised for many years and so, it is best to speak with an advisor.

The RNRB taper threshold is linked to the value of the estate (ignoring reliefs and exemptions) and if the value of your estate exceeds £2million, it may be worth considering making gifts to get the value below £2million so that it qualifies for the RNRB. At present, you can do this without applying the usual seven-year survival requirement.

Many couples own their home as "joint tenants", this means that on the first death, the home will automatically pass to the surviving spouse who will inherit the deceased's unused RNRB. If the survivors' estate is worth more than £2million, the RNRB will be tapered. If the ownership of the property was switched to "tenants in common", this could allow each spouse to control how the property passed on death and preserve entitlement to RNRB.

Rather than giving away your home, think about giving away other assets to reduce your estate below £2 million.

TIP

IHT is one tax that can be mitigated with careful planning and good advice. The RNRB adds another complicated layer to the planning but taking advice could save your family up to £140,000 when you or your spouse die.

Property

In recent years, the Government has targeted second home owners and buy-to-let landlords through:

- increasing stamp duty by 3% over normal rates;
- abolishing the annual wear and tear allowance on unfurnished properties of a fixed percentage of rents and instead allowing only actual itemised receipted costs of replacements;
- applying higher CGT rates of 18% and 28% to residential property instead of the normal rates of 10% and 20%.
- For the 2019/20 tax year, only 25% of the total finance cost is allowable as a direct deduction against rental income: the remaining costs are subject to a formula that reduces income tax relief to no more than the basic rate. Next year, 2020/21, the restriction will apply to all finance costs.

TIP

If you are starting out in the buy to let business, take advice and think about putting your first property in a limited company. Corporation tax rates are at an all-time low of only 19% and even though a planned further reduction from 1 April 2020 looks set to be postponed, the ability for a company to deduct the expense of borrowing fully makes this option worth considering.

Do not simply transfer an existing buy-to-let portfolio into a company unless you are sure that will not trigger a CGT charge, and don't forget that if you transfer your property to a company that will incur an SDLT liability.

Private Residence Relief (PRR)

New, more restrictive PRR rules come into effect on 6 April 2020.

Until then, if you have lived in your property before letting it to tenants, you will receive PRR when you come to sell. This means you don't have to pay any CGT for the time you lived in the property, plus an extra 18 months after you moved out. But under new rules, this reduces to nine months.

What's more, the £40,000 of lettings relief (which you can claim if you rent out a property that's been your main home) will only apply to landlords who share occupancy with their tenants.

TIP

If you're planning to sell, exchanging contracts before April 2020 may save you CGT, so speak with an adviser.

Another reason for fixing the date of a CGT disposal before 6 April is the change in CGT payment dates. For a disposal made in 2019/20 CGT becomes payable on 31 January 2021 but on disposals on or after 6 April the tax will be due within 30 days.

Furnished Holiday lets

Furnished holiday lets (FHLs) don't suffer the income tax interest relief restriction. However, there are some things you must consider ensuring that a FHL will qualify. The property must be:

- in the UK or European Economic Area.
- furnished for normal occupation.
- commercially let: in other words you intend to make a profit.
- available as furnished accommodation for at least 210 days a year (not including the days you stay there yourself).
- let commercially to the public for at least 105 days a year: (if you have two or more furnished holiday lets, you can average them out). Days offered to friends and relatives at "mates' rates" don't count nor do lets over 31 days.

So, assuming your property qualifies on all of the above, what are the benefits of owning a FHL?

- FHLs are treated as a trade so you can claim capital allowances on items such as furniture and other items that you buy for the property.
- Profits made from FHLs are treated as earned income for tax purposes and this allows you to make a pension contribution depending on your level of earnings.
- Losses on FHLs may be available to offset against your other income.
- You can claim 100% mortgage relief against letting profits.
- Gift relief enables a taxpayer to pass on their assets to the next generation: investment property does not qualify for gift relief but FHLs do.
- Gains accruing on the sale of residential property attract CGT but gains on the sale of a qualifying FHL may qualify as business assets for the purposes of entrepreneurs' relief. This could reduce CGT from 28% to 10% provided the conditions are satisfied.
- Certain FHLs also qualify for 100% relief from council tax although the government are looking at this very carefully.
- In addition to the other tax benefits you may be able to claim rollover tax relief for FHLs.

TIP

The tax breaks for FHLs may seem extensive and exciting compared to ordinary buy to let properties but the conditions attaching to these tax breaks are burdensome and require careful planning.

03 Year-end planning checklist

1	If you haven't used your full £20,000 ISA allowance for 2019/20, top up by 5 April 2020.	
2	Have you used your full JISA allowance of £4,368 for 2019/20? If not encourage grandparents to make gifts before the 5 April 2020.	
3	Have you contributed the maximum amount (up to £40,000) into a pension plan in 2019/20 and used up any available annual allowance carry forward?	
4	You can also boost your Basic State Pension by paying voluntary Class 3 National Insurance Contributions (NICs).	
5	If your income is close to £100,000 and you are in danger of losing your tax-free personal allowance, think about upping your pension contributions. You could get some of your allowance back as the income on your tax return will be lowered to take your extra pension contributions into account.	
6	Have you used your full allowances for EIS (£1 million), VCT (£200,000) and/or SEIS (£100,000)?	
7	Have you and/or your spouse/civil partner used your full annual CGT exemption for 2019/2020 (£12,000)? Consider transferring an asset into your joint names so you can both use your individual allowance when you come to sell the asset.	
8	Have you used your annual IHT gifting exemptions of £3,000 for 2019/20 and 2018/19?	
9	Do you have an up-to-date will? Do you need an additional will for overseas property?	
10	Get a pension check to see if you can protect your fund if it is likely to exceed £1million.	
11	Grandparents - Set up a CTF, JISA or pension for your grandchildren and in doing so improve your IHT position.	
12	If you are making any gifts to charity, ensure they are made by the 5th of April 2020 and you will get tax relief at your highest rate.	

Our commitment to excellence is something that has been recognised many times by independent bodies, judges and experts

The award winning Mazars Private Client team are highly experienced and qualified, which is evidenced by the fact the majority are either:

- Certified Financial Planners[CM] (CFP) – the only globally recognised standard of professionalism for Financial Planners; or
- Chartered Tax Advisers – as awarded by the Chartered Institute of Taxation, the leading professional body in the UK for advisers dealing with all aspects of taxation.

Chartered Institute of Insurance (CII) – Chartered Financial Planners – Awarded to firms who demonstrate their professional commitment to raising standards of knowledge, capability and ethical practice.

Chartered Institute for Securities and Investment (CISI) – Accredited Financial Planning Firm (Founding Member).

Gold Standard Award for Independent Financial Advisers from AKG seven years running 2011-2019

New Model Adviser Top 100 2019

New Model Adviser – Greater London Regional Winner 2020

Portfolio Adviser – Gold Award for "Cautious – Boutique" – Wealth Manager Awards 2018

Top 5 in 100 Financial Advisers 2019 – The Financial Times

MAZARS