

AUDIT • TAX • ADVISORY

WEBINAR

Year end tax planning

24 February 2021



Now, for tomorrow





Speaker



Alastair Wilson

MHA Tait Walker

Partner, specialises in
tax matters.

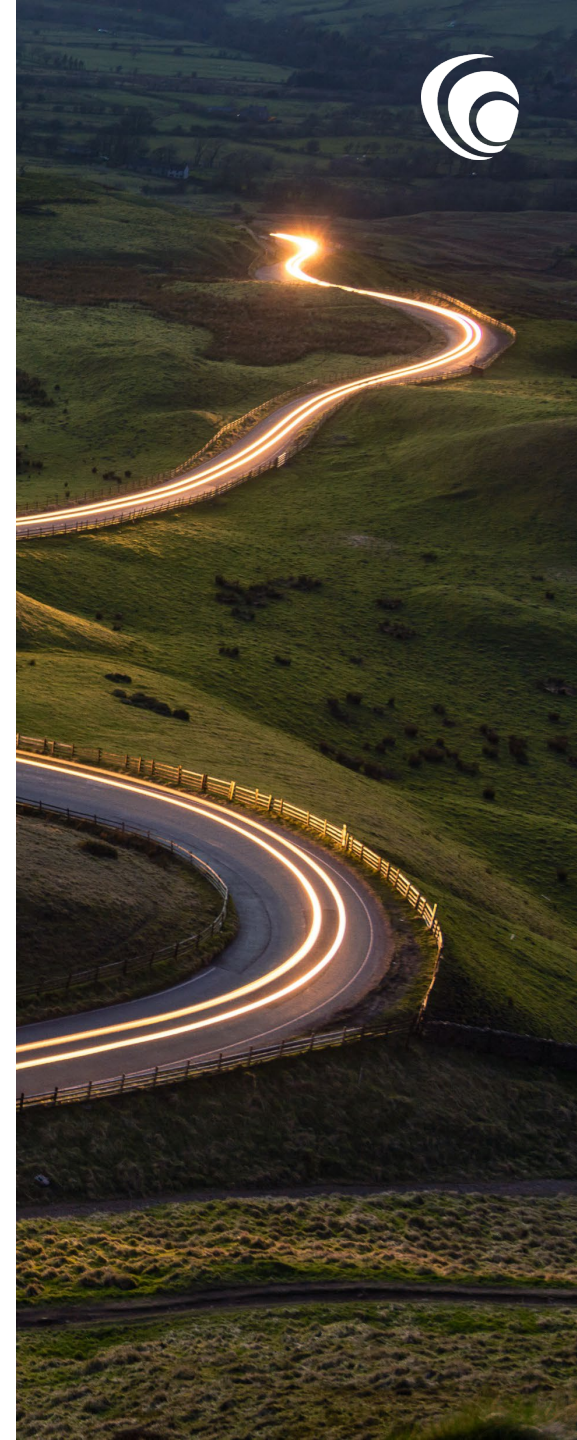


Welcome

- There will be a **Q&A session** at the end of the webinar
- Please use the **chat function (speech bubble icon)** and we will answer any questions at the end

Background

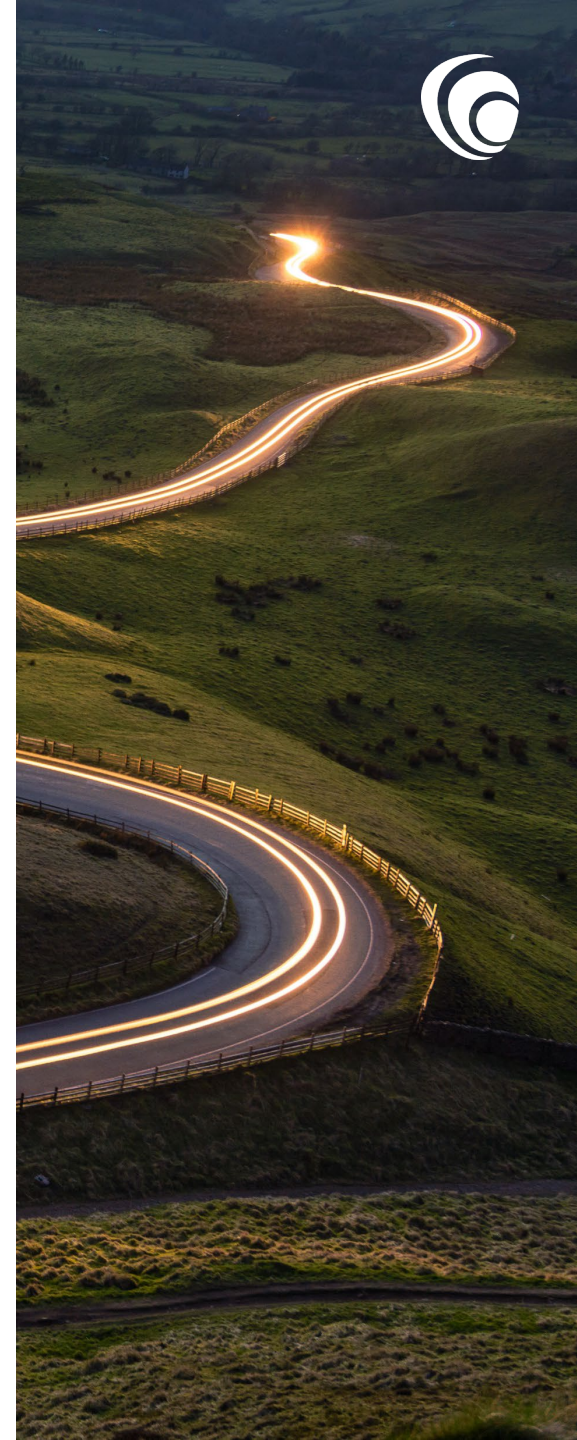
- Estimated £125 billion of extra savings in UK population
- Cost of Covid measures estimated to be £400bn
- So, there is a gap to fill in terms of paying for all the measures
- General expectation that recovery will be swift, but only once it is possible!





What might change?

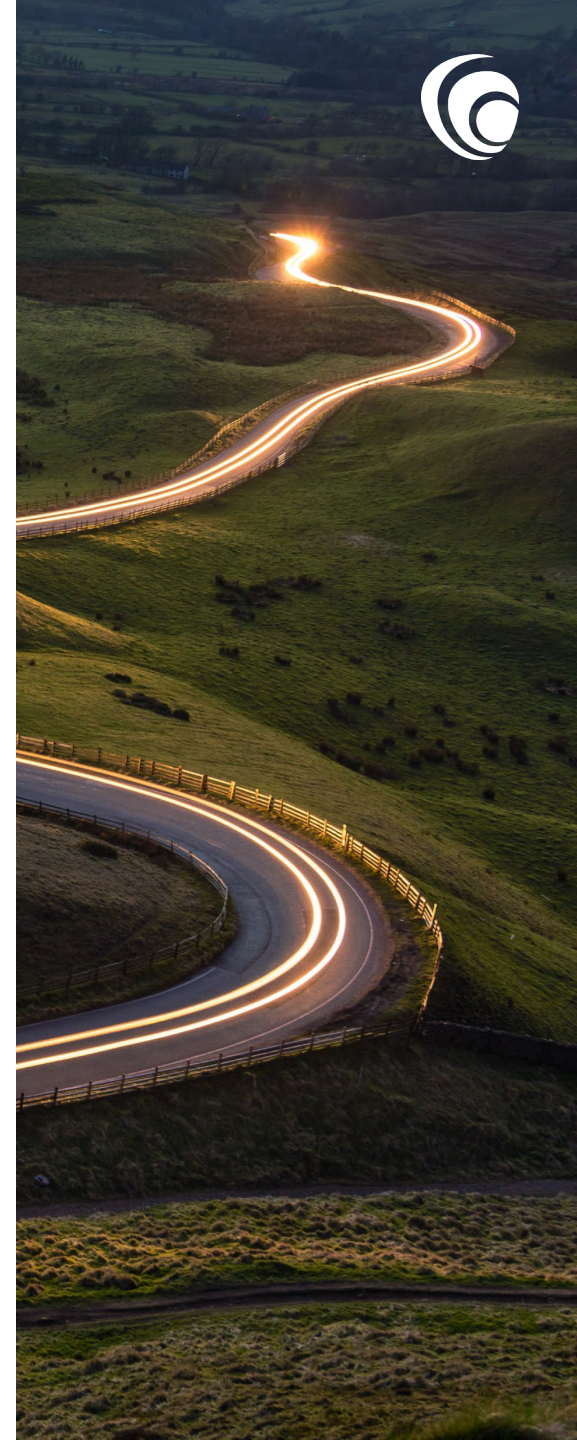
- Budget on 3rd March 2021
- Measures to encourage spending
- “Triple lock” maintained? (No changes to income tax, NIC, VAT for 5 years – manifesto pledge)
- Corporate tax increases?
 - CGT increases?
 - Curtail pensions relief?





Timing of changes

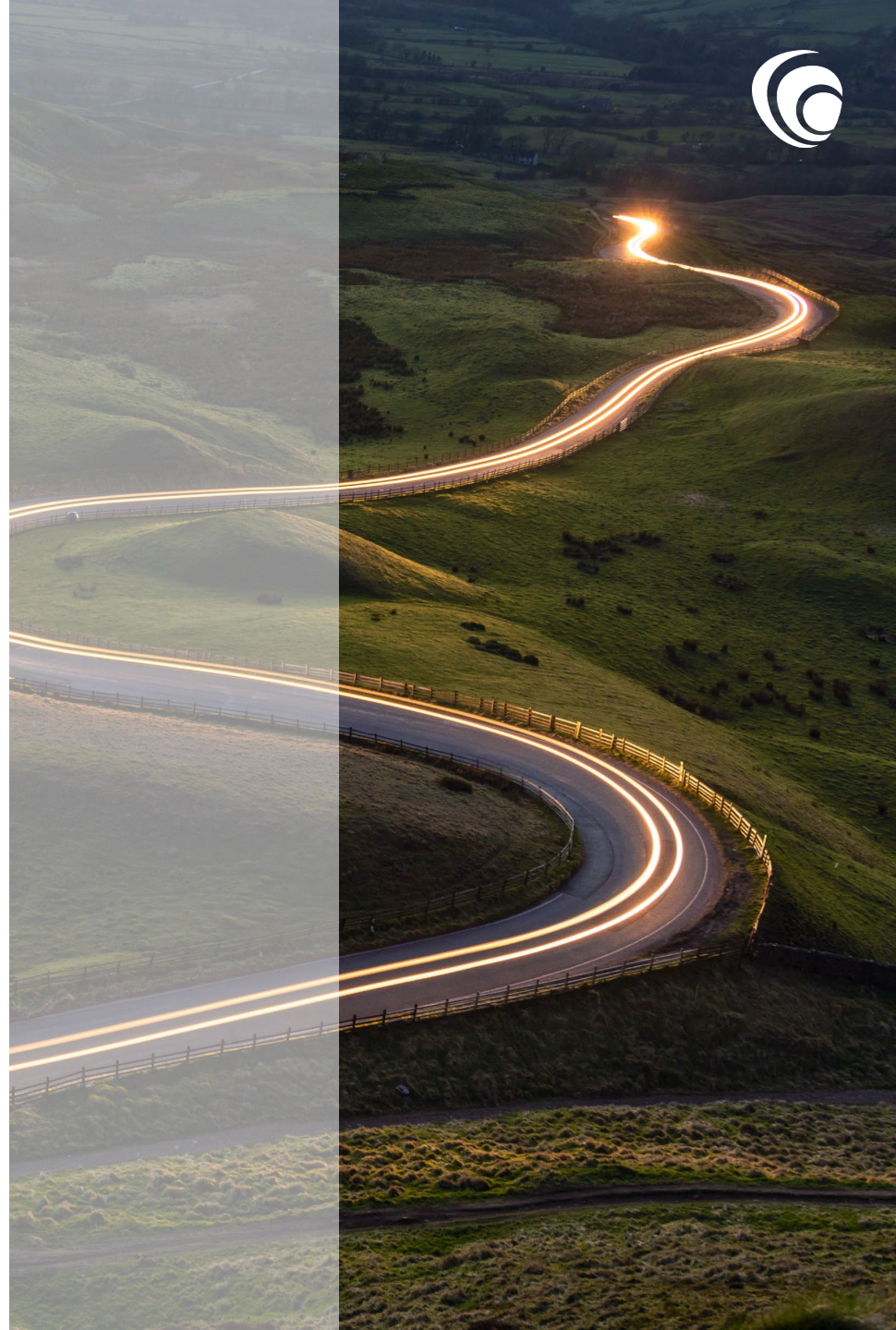
- In the past, some tax changes have been announced but the timing delayed
- E.g.: if an increase in taxes was announced but a delay in implementation announced – it encourages activity in advance of the change by those who might be affected
- This can cause transactions (e.g.: business sales, disposals of investment etc.) ahead of tax rises but which accelerate tax
- Prior Governments have done this!





What can you do now?

- Plan for “now”
- Act before 3rd March?
- Or before 5th April?
- Or before other potential tax rises (we expect significant changes over the next few Budgets – will we also have an Autumn one)?





Speaker



Mark Parkinson

MHA Tait Walker

Partner, specialises in
wealth management



Tax Year End – 2020 / 21

- There are 5 main areas that we find we focus on at tax year-end.
- The caveat being that there could be changes in the Budget on 3rd March 2021 which may have an effect.
- The key areas that we will be discussing today are:

ISAs

Junior ISAs

Pensions

Capital Gains Tax

Inheritance Tax



Individual Saving's Accounts (ISAs)

Are you making the most of this year's £20,000 allowance?

- ISAs are not subject to Income Tax or Capital Gains Tax.
- The current ISA allowance for 2020/21 is £20,000.
- You can invest in either a Cash or Stocks and Shares ISA.
- You can't carry forwards any unused ISA allowance, therefore if you don't use it, you lose it.
- If an ISA allowance is fully used every year, over the long term you can build significant savings which are essentially free of tax.
- Lifetime ISA (LISA).



Cash or Stocks and Shares ISAs?

- You can invest in either Cash or Stocks and Shares.
- If you view your ISA savings as a medium to long term investment and you are planning to hold it for at least 5 years, Stocks and Shares can be a great way to go.
- Why? Over the long term, stock markets tend to rise.
- Saver's worst enemy: Inflation
- Inflation is the average price of goods and services over time.
- Current rates:
 - Bank of England Base Rate- 0.10%
 - Inflation- 0.70%
 - Typical Interest Rates available between 0.01%-0.5%



Junior ISAs

Are you looking to save for the children in your life to give them a head start?

- Junior ISAs (JISA) allow you to save money tax-efficiently for children up to the age of 18.
- A parent/ guardian has control of the JISA under the child is 18.
- JISA is not subject to Income Tax or Capital Gains Tax.
- The current JISA allowance for 2020/21 is £9,000.
- Again, you can invest in either Cash or Stocks and Shares.
- No withdrawals are allowed until the child is 18.
- Investing into a JISA for children can be a good way of saving for their future but also having the added advantage of removing money from your estate which might be liable to Inheritance Tax at the time of your death.



Enterprise Investment Schemes (EIS)

- 30% Income Tax Relief
- Income Tax Relief can be carried back 1 year
- Must be held for a minimum of 3 years
- The maximum amount on which relief can be claimed is £2,000,000, but any amount over £1,000,000 must be for shares issued by one or more knowledge-intensive companies (KIC)
- 100% CGT Exemption on Disposal of Shares if held for minimum term
- Qualify for Business Relief, if held for 2 years outside estate for IHT.

Venture Capital Trusts

- 30% Income Tax Relief
- Must be held for a minimum of 5 years
- Maximum Investment of £200,000
- May pay out tax free dividends
- 100% CGT Exemption on Disposal of Shares if held for minimum term.



Pensions

Are you getting the most from the tax saving benefits your pension can bring?

- A pension is a tax-efficient way of saving for your retirement and due to greater choice and flexibility, it's never been a more attractive option for retirement savers.
- Annual Allowance: Individuals within the UK, up to age 75, get tax relief on pension contributions worth up to 100% of their earnings, capped at £40,000 each tax year. This is called the Annual Allowance.
- You can contribute to a pension personally, through your employer (AE) or as a shareholder, through your company.
- Carry Forward: If you don't use all your allowance in one year, you can carry it forward for up to three tax years. Therefore, if you fully utilise your allowance of £40,000 in 2020/21, you can use unused allowances back to 2017/18.
- The deadline for contributions is the 5th April 2021.

Pensions



- Income tax relief on the money you put into your pension pot, especially as a higher or additional rate taxpayer.
- Regular Saving- pound cost averaging.
- Top up before the end of the tax year and making use of any unused allowances from previous tax years.
- It's possible the government might change the tax allowances available to you, so use them whilst you can!
- You can invest in a range of assets within a pension, typically being Stocks and Shares as to the majority they are a long-term investment.
- You can also ensure that if something happens to you, the pension is passed onto whoever you nominate, and it is held outside of your estate so not subject to Inheritance Tax!
- Defined Benefit Transfer?
- Lifetime Allowance - £1,073,100



Speaker



James Kipping

MHA MacIntyre Hudson

Partner, Head of Private
Client Tax

Pensions



- Annual allowance of £40k maximum (or earned income if lower, for personal contributions)
- Unused relief from 3 previous years available
- High earners restriction
- Adjusted income over £240k. Threshold income over £200k
- Reduction of £1 per £2 until reach minimum of £4k
- Income tax relief – 20% at source, higher rate relief via Self Assessment
- Lifetime allowance £1,073,100
- Use or lose!



Pensions Savings - Tax

- **Example:** Defined Contribution Scheme
- If you earn £125,000 you will not be entitled to the personal allowance. You will suffer income tax at an effective rate of 60% on the income between £100,000 and £125,000 which is £15,000, £5,000 of which relates to losing the personal allowance.
- If you make a net pension contribution of £20,000 this will be grossed up to £25,000 at source. Your rate bands will be extended to receive higher rate tax relief and your personal allowance will be reinstated, saving income tax of £10,000

Net contribution	£20,000
Income tax saved	(£10,000)
Cost to you	£10,000

Pension fund receives £25,000.



Pensions Savings - Tax



- Enhanced Protection?
- **BEWARE AUTO ENROLMENT!**
- If £1 is contributed to pension, enhanced protection lost!
- Remember that employer required to offer you enrolment every two years. You must opt out each time.



Inheritance Tax (IHT)



- IHT is the tax due on chargeable lifetime gifts or on the estate of someone who has died.
- No IHT will be due if the value of your estate, including any gifts made in the 7 years before death, are less than the nil rate band threshold of £325,000, or if you leave everything above the £325,000 threshold to your spouse, charity or community sports club.
- If you give away your home to direct descendants, the threshold can increase by up to £175,000 with the residence nil rate band
- NRB and RNRB are transferrable = up to £1,000,000 in total
- IHT is charged at 40% unless at least 10% is left to charity (36% rate).



Inheritance Tax (IHT)



- Potentially exempt transfers (PET), such as a cash gift, are not immediately chargeable to IHT but tax will be due if the transferor dies within 7 years of the gift. 40% tax rate applies but is tapered depending on the length of time since the gift was made.
- Gifts that do not qualify as PET's will be immediately chargeable to IHT e.g.: gifts to a trust or company.
- Relief can be given for qualifying business and agricultural property:
 - 100% relief for shares in an unlisted company
 - 50% relief for shares controlling more than 50% of the voting rights in a listed company or land/buildings used for business
 - 50% or 100% relief for growing crops, stud farms, farm buildings etc.



Inheritance Tax (IHT)



Certain gifts made can be covered by available exemptions:

- **Gifts made out of your normal income such as birthday presents**
- Gifts between spouses or civil partners
- Gifts up to £3,000 each year (annual exemption) and can carry forward to next year if unused
- Wedding gifts up to £1,000 per person (£2,500 for a grandchild and £5,000 for a child)
- Gift to charity
- Payments to help with another person's living costs e.g.: an elderly relative or young child
- Small gifts of up to £250 per person each year as long as another exemption has not already been used on the same person

Gifts from Income



- A very valuable and often under-used relief
- Section 21 of the Inheritance Tax Act 1984 exempts transfers if, taking one year with another, it can be shown that the gifts:
 - Formed part of the donor's usual expenditure
 - Were made out of income, and
 - Left the donor with sufficient income to maintain their normal standard of living.
- Bennett and others v IRC (1995)
- Record keeping
- What about gifts into a pension fund for grandchildren?

Gifts from Income



An Example

	£	£
Annual contribution to pension fund		2,880
Tax relief added by HMRC		720
Total 'gross' contribution		3,600
Over, say 18 years:		
Total contributions (IHT exempt)	51,840	
Tax relief	12,920	
Total contributions		64,800
If we assume compound growth at 5% until age 65		1,003,243



Inheritance Tax (IHT)

Recent policy reviews

- IHT largely untouched (26 years post inception)
- £5.37bn in 2018/19 (income tax £190bn)
- Office of Tax Simplification – first report published in November 2018 (administrative)
- Office of Tax Simplification – second report published in July 2019
- All-Party Parliamentary Group – ‘Reform of inheritance tax’ report published in January 2020



Inheritance Tax (IHT)

OTS Recommendations (July 2019)

- Reduce the 7-year period to 5 years
- Abolish taper relief
- Single personal allowance exemption
- Remove automatic CGT uplift when an IHT relief or exemption applies
- Technical reforms to Business and Agricultural Reliefs



Inheritance Tax (IHT)

APPG Recommendations (Jan 2020)

- Proposes much more radical reform
- Tax both death and lifetime transfers at flat rate of 10%
- Annual gifts exemption of £30,000
- Abolish PETs – all lifetime gifts charged unless within annual exemption
- Abolish the Nil Rate Band
- Death allowance at similar level to current NRB
- Few exemptions – spouse and charity exemptions retained, but no Agricultural or Business reliefs
- Abolish the CGT uplift
- Abolish non-domiciled status for IHT



Inheritance Tax (IHT)

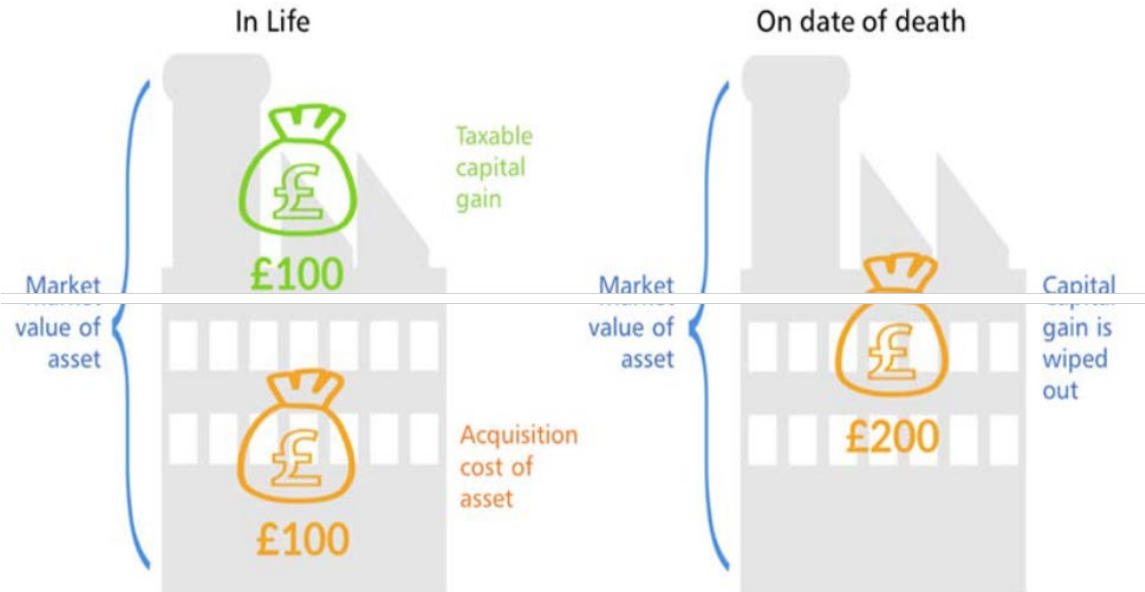
Where is IHT going?

- OTS proposals much more focussed and realistic in relation to reliefs and exemptions
- APPG instead are a wealth transfer tax, a kind of proxy for a simple wealth tax?
- CGT uplift on death and Business/Agricultural reliefs feature in both – obvious areas for change



Inheritance Tax (IHT)

CGT-free uplift on death



- If assets pass without IHT then the gain is wiped out without any tax charge
- Proposal: 'No gain, no loss' transfer on death?



Inheritance Tax (IHT)

CGT and IHT interaction

- CGT-free uplift on death is just one aspect of interaction between CGT and IHT
- What about double taxation?

Double taxation



(Source OTS)



Inheritance Tax (IHT)

Business / Agricultural Relief



(Source OTS)

- **16,380** – number of estates expected to benefit from BPR or APR over next five years
 - **£5.85 billion** – total cost to the Exchequer of BPR and APR over the next five years of both reliefs (compared with £30.4 billion – total inheritance Tax yield expected over the next 5 years)
 - **£357,000** – average benefit for each eligible estate of both reliefs over the next five years
-
- Align trading v investment tests for CGT and IHT?
 - Review treatment of non-controlling shareholdings
 - Align IHT treatment of Furnished Holiday Lets with the income tax and CGT treatment?



Speaker



Patrick King

MHA MacIntyre Hudson

Partner, Head of
Entrepreneurial Business



Capital Gains Tax

- Capital Gains Tax payable on chargeable gains

Tax Rates & Allowances	2020/21
Annual Exemption	£12,300
Capital Gains Tax Rate	10%/20%
Capital Gains Tax Rate – residential property	18%/28%
Business Asset Disposal Relief	10%

- Residential property disposals need to be reported and CGT paid within 30 days of completion
- Possible Capital Gains Tax Reform

Capital Gains Tax (CGT)

The Main Reliefs

- Entrepreneur's Relief (now called Business Asset Disposal Relief)
- Principal Private Residence relief (PPR)
- Gift relief for business assets
- Gift relief for IHT "chargeable transfers"
- Rollover Relief
- Holdover Relief
- Deferral Relief
- No CGT on death





Capital Gains Tax (CGT)

Historic Rates/Overseas Rates

- Rate 30% from 1979 – April 1988
- Then 20 years at income tax rates to April 2008
- Then 18% for two years to April 2010
- Six years at 18%/28% or 10% with ER to April 2016
- April 16 to date, 10% or 10/20% or 18/28%
- France - 19% plus 17.2% social (but various regimes and reliefs)
- Germany – 25% on some assets with reliefs
- USA – up to 37% for short term, 20% long term
- Australia – income tax rates up to 45%



Capital Gains Tax (CGT)

What Might Change?

- Rate? Much talk of return to income tax rate
- PPR? Restriction to £1m
- Qualification for Business assets disposal relief (BADR)
- Uplift on death

- Will we see a return of indexation if rate increases?
- Logic for a return to relief for long term held assets?
- Different rates for business and investment assets (Taper Relief)?

Capital Gains Tax Reform



- In July 2020, the Chancellor asked the OTS to undertake a review of Capital Gains Tax and aspects of the taxation of chargeable gains in relation to individuals and smaller businesses
- They would like to address areas where they believe the preferential Capital Gains Tax rates “distort behaviour and do not meet their policy intent”
- The scope of this was wide and included looking at rates, reliefs, exemptions, allowances, treatment of losses and interaction with other parts of the tax system
- In November 2020, the first of two reports were issued

Capital Gains Tax Reform



Business Asset Disposal Relief

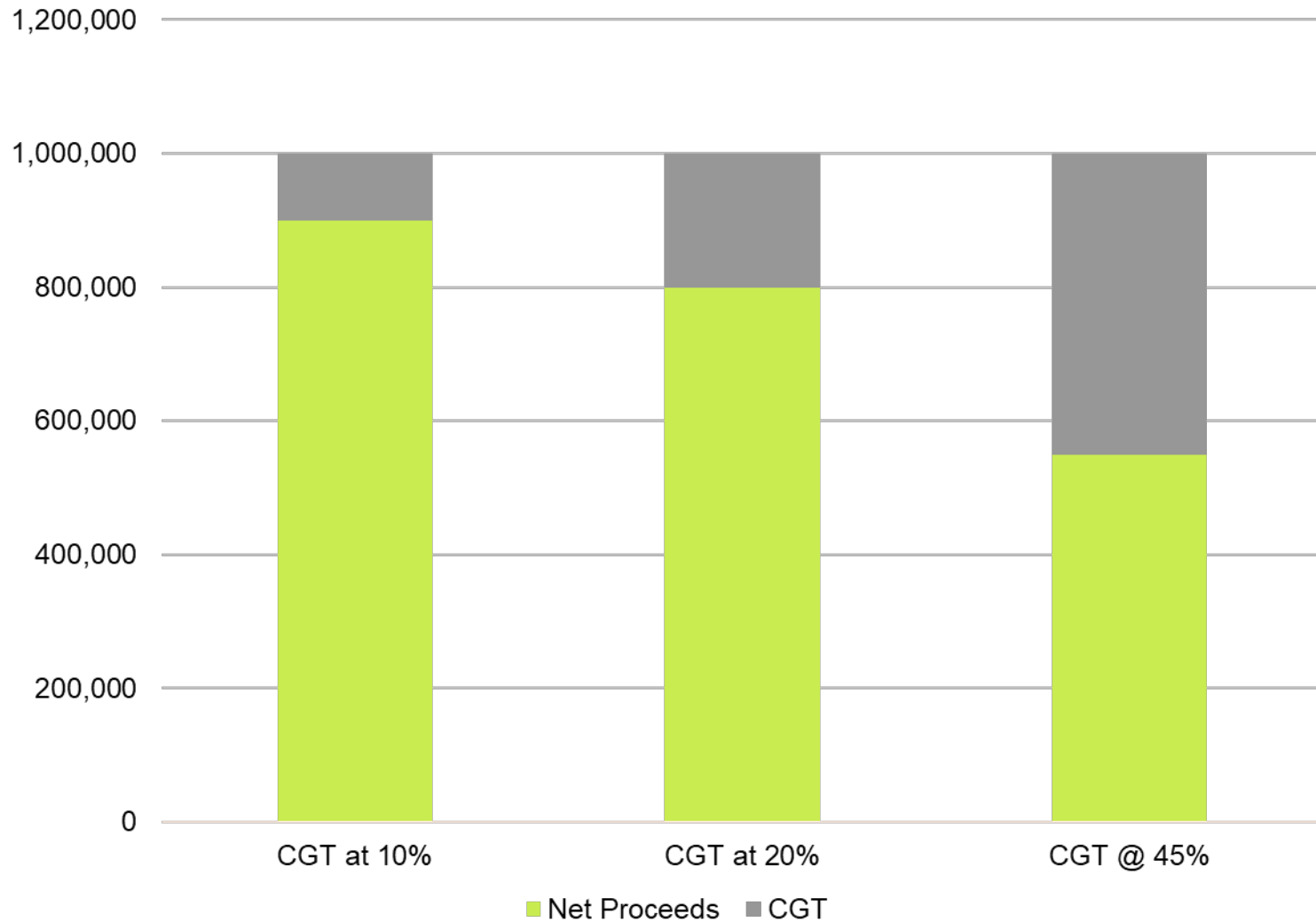
- Increasing the minimum shareholding (suggestion of 25% compared to current holding of 5%)
- Increasing the holding period (suggestion of 10 years compared to current period of 24 months)
- Reintroduction of age limits, perhaps linked to age limits in pension freedoms

Tax Rates

- Alignment of rates to income tax rates



Example based on Proceeds of £1m



Capital Gains Tax Reform



What should you consider now?

- Use your annual exemption if you can
- Can you accelerate completion of any disposals now?
- Have you disposed of any assets recently which have a deferred tax point which you can bring forward?

Planning



PET's & CGT

- PET's unlimited.
- Change may be coming
- Review planning and use or lose?

CGT?

- Values low? Consider transfers now
- Change may be coming



Capital Gains Tax

- Don't forget the new "CGT on UK property account" for disposal of UK residential property by UK residents
- Must be submitted within 30 days of completion
- Unless there is no CGT to pay (in contrast to Non-resident CGT)
- Timing may be crucial if there are also current year losses



Inter Spouse

- Income tax allowances
- Share portfolios
- Investment property
- CGT free transfers
- IHT free transfers, but
- Non Dom spouse?
- Bed & Spousing?
- Emigration? CGT uplift?



School Fees

- 3 children at private school at £15k pa = £45k from taxed income
- 45% taxpayer needs £85k of income! £40k tax and NIC!

- Grandparents set up trust
- Transfer income producing assets
- Beneficiaries the grandchildren
- Use children's personal allowance
- Tax now £1,500



Annual Tax on Enveloped Dwellings (“ATED”)

- An ATED return is required for companies that own residential properties which are valued in excess of £500k
- ATED reporting for 2020/21 must be completed by 30 April 2021
- Several reliefs and exemptions available that mean you may not have to pay any ATED tax, but reporting is still required
 - Example reliefs and exemptions:
 - Let to a third party on a commercial basis and not occupied by anyone connected to the owner
 - Owned or being developed by a property trader for resale
 - Being used by a trading business to provide living accommodation to certain qualifying employees
 - Charitable companies using the dwelling for charitable purposes



Q&A session
Any questions?



Contact us

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