Get ready for the end of the tax year

shipleys LLP

As we approach the end of the tax year on **5 April**, you may be able to choose the tax year in which your income, gains or tax reliefs fall. This can affect how much tax you need to pay and when you pay it.

End-of-year tax planning is especially complicated this year. Many changes from 6 April result from the Finance Act 2019, which is already in force. Others might result from draft clauses in the Finance Act 2020, published last July. Further changes in the Budget on 11 March could affect whether it is better to act before 6 April or wait until later.

Income tax

If your income falls just above one of the income tax thresholds below, you may want to reduce your taxable income – for example, by paying into your pension or giving money to charity. You may also want to make use of the personal allowance (currently £12,500) for family members with no taxable income.

Taxable income	Income tax rate
Up to £37,500	20%
37,501 to £150,000	40%
Over £150,000	45%

The above may be changed in the Budget on 11 March.

Particular care should be taken if your income is in the £100,000 to £125,000 range, as you gradually lose your personal allowance between these amounts until you are effectively taxed at 60%. So, if your income is just above £100,000, reducing it where possible can save that extra 20% in tax. In a similar way, loss of child benefit can be reduced if the highest earner in the household keeps their income below £50,000.

The rules for pension contributions are also expected to be changed in the Budget and may affect the current 2019/20 tax year. You should take specific advice if you're considering making extra pension payments to reduce your taxable income.

Capital gains tax

Tax on capital gains in the 2019/20 tax year should remain payable by 31 January 2021. So, except for UK residential property (see next page), deferring a disposal until after 5 April could be worthwhile from a tax point of view, unless you plan to use your 2019/20 annual exemption of £12,000, and depending on changes announced in the Budget. There may be other, non-tax reasons not to wait until the new tax year.

A deferral might also mean you qualify for entrepreneurs' relief or investors' relief, so that your gain is taxed at 10% instead of 20%, but it is possible these reliefs may be changed or even abolished altogether in the Budget.

If any of your assets have become of negligible value, it might be worth considering a loss claim. In some cases, income tax relief may be available.

'Bed and breakfasting', i.e. selling shares or securities to realise a gain covered by losses or the annual exemption and then buying them back, is not allowed if the purchase takes place within 30 days. However, these rules don't apply to shares 'reacquired' by your spouse or ISA.

Disposals of shares that result in a controlling interest in a company being held by an employee ownership trust are exempt from capital gains tax.

Capital gains tax on UK residential property

Perhaps of most interest to many are changes that affect capital gains tax on UK residential property.

Non-residents already have to report disposals (direct and indirect) of UK residential and non-residential property within 30 days of completion, and meet any tax liability at the same time. From 6 April 2020, UK residents also have to report disposals within 30 days of completion if there is any capital gains tax to pay, but only of UK residential property.

This will be most relevant to let property, but changes to the calculation of the exemption that normally applies on disposal of your main residence may mean that the new rules apply to a sale (or gift) of your main home, as well as second homes.

The first key change that affects the main residence exemption is to the letting allowance. Currently, if you haven't occupied a property throughout your ownership because you let it out for a period, the exemption is reduced in proportion, save that it may be increased by up to £40,000. For example, if your overall gain is £200,000 and you let out your home for 25% of the period of ownership, the exempt amount of the gain is 75% of £200,000, i.e. £150,000 plus £40,000 of the amount otherwise chargeable.

From 6 April 2020, the allowance will only apply if you shared occupation of the property during the period it was let – quite an unusual situation.

The other main change is that the final period of ownership when it doesn't matter if you occupy the property will generally be reduced from 18 months to nine months.

Purely from a tax point of view, it is therefore generally preferable to exchange contracts for disposal of UK residential property by 5 April 2020, unless an allowable capital loss on other assets might arise in 2020/21 that could be off-set against any gain. However, if losses arise after the return is due for sale of the property, the capital gains tax still has to be paid based purely on the gain on the property, and claimed back later.

Stamp duty land tax (SDLT)

The Budget on 11 March could see changes to SDLT affecting England and Northern Ireland. The threshold, below which no SDLT is payable, might be raised and a 3% surcharge might apply to non-residents. Any changes will probably apply from midnight on Budget day.

Inheritance tax

Exemption from inheritance tax on lifetime gifts normally depends on surviving at least seven years, but there are exceptions. You can give up to £3,000 each tax year, plus the amount of any unused allowance from the preceding year. In addition, you can give up to £250 each to any number of people each year. Gifts of assets that grow in value can save inheritance tax even if you die within seven years because the growth in value is in the recipient's estate, not yours.

Regular gifts out of income are exempt without limit, provided your remaining after-tax income is sufficient to maintain your usual standard of living.

Don't forget that gifts can result in a capital gains tax liability.

Non-doms

More long-term resident non-doms will become deemed domiciled for income tax, capital gains tax and inheritance tax purposes from 6 April 2020. More detail on this and other changes affecting non-doms and offshore trusts is on our website at ***https://tinyurl.com/ss48ua2***

Tax-efficient investments

No tax is payable on income or gains on investments within an Individual Savings Account (ISA). You can invest up to £20,000 in total each tax year.

A surviving spouse or civil partner may claim an extra ISA allowance equal to the value of ISA holdings of a deceased partner if they live together at the time of the death.

The 'Help to Buy' Lifetime ISA is available for those saving to buy their first home. If you are aged between 18 and 40, you can save up to £4,000 a year until you reach the age of 50 and receive a government bonus of 25% on your savings to be used towards the cost of a first home worth up to

£450,000. The money can be invested as cash or in stocks and shares, as with other ISAs, and may be taken out tax-free after the investor is 60.

You can get income tax relief at 30% on up to £1m subscribed for shares in qualifying Enterprise Investment Scheme (EIS) companies each tax year, provided you are not 'connected' with the company. Any gain on sale of the shares is exempt from capital gains tax if they are held for at least three years. £500,000 may be subscribed in one tax year and claimed in the preceding tax year if sufficient EIS relief remains unused.

Income tax relief at 50% is available on up to £100,000 each tax year subscribed for shares issued by smaller companies that qualify for Seed Enterprise Investment Scheme (SEIS) relief, provided the shares are held for at least three years, with any gain on sale exempt from capital gains tax.

Subject to timing, capital gains tax can generally be deferred by making EIS or SEIS investments, even if you are connected with the company.

Income tax relief at 30% is available on up to £200,000 each tax year subscribed for shares in Venture Capital Trusts (VCTs), provided the shares are held for at least five years. Dividends and gains relating to shares in VCTs are exempt, subject to limits on the size of your holding, even on second-hand shareholdings.

Income tax relief at 30% is available on an investment of up to £1m in 'social enterprises'.

Specific advice should be obtained before taking action, or refraining from taking action, in relation to the topics covered.

For further information and advice, please talk to your Shipleys' contact, or contact one of our offices:

LONDON
10 Orange Street
Haymarket London
WC2H 7DQ
T +44 (0)20 7312 0000
E advice@shipleys.com

GODALMING
5 Godalming Business Centre
Woolsack Way
Godalming
Surrey GU7 1XW
T +44 (0)1483 423607
E godalming@shipleys.com

www.shipleys.com

@Shipleys_LLP

Shipleys LLP

shipleys LLP