2018-2019 Year End Tax Planning Guide

With the tax year due to end on 5 April 2019, there are some 'quick wins' to make the most of tax efficiencies available to you and your family.

The basics

Use them or lose them!

The following allowances, savings and contributions are available to all taxpayers and it's a case of use them or lose them:

- **Use your personal allowance, which is £11,850 in the tax year 2018/19.** Make sure children or non-working spouses use this allowance by 5 April and that they plan now for how to use their 2019/20 allowance of £12,500.

- **The dividend allowance of £2,000**. If you own a business, consider taking a dividend as the first £2,000 of dividend income is tax free.

- **Be aware that the current years' capital gains tax (CGT) annual exemption is £11,700 for any profit made on the sale of property or shares.** Aim to crystallise losses if gains exceed the exemption. For example, consider an inter-spouse transfer to take advantage of your spouse's annual exemption and/or brought forward losses.

- **Make the most of your tax-free savings. The allowance for Individual Savings Accounts (ISA) is £20,000.** That's £20,000 you can save tax free each year.

  You can choose from Cash, Stocks & Shares, Innovative Finance and Lifetime ISAs and put money into one of each kind each tax year, as long as the combined contributions do not exceed £20,000. Be aware that the Lifetime ISA has a £4,000 maximum subscription.

- **There are two 'special' types of ISAs:** the Help to Buy ISA, where contributions are limited to £200 per month, and the Junior ISA, where parents can save up to £4,260 for their children who are under 18 years of age.

- **Don't forget your pension contributions either.** The annual allowance for non-taxpayers is £3,600 per year. You contribute £2,880 and HMRC will add £720.

- **Check your PAYE coding notice** – you need to keep a close eye on your Pay As You Earn (PAYE) tax code through the year. HMRC often issues incorrect codes which can lead to you underpaying tax and receiving an unexpected bill when your tax return is filed. HMRC only sends coding notices to the individual taxpayer, so please forward on to us any that you receive.

Please also try to remain alert to any changes in your monthly take home income that may indicate that your code has changed. If this does happen, let us know so that we can investigate it for you.

It is also worth bearing in mind the sort of things that would cause your tax code to change and keep us informed if:

- You earn over £100k. Your personal allowance should be reduced, and if you earn over £123,700, you should have no personal allowance at all.

- There is a change to the amount or method of your pension funding.

- There is a change in your employee benefits or expenses. Adding or removing a benefit or expense, such as a company car.

- You change employer. It is particularly important that we check your tax code when you start a new employment.

May need to review

Are you affected by any of the scenarios below?

Receiving Child Benefit

If you are in receipt of Child Benefit and either you or your partner has income above £50,000, you may have to pay back some or all of the benefit through the High Income Child Benefit Charge. The claw-back is at 1% of the benefit for every £100 of income over £50,000, so that when income reaches £60,000, the benefit of the claim is lost altogether.

If you think this may affect you, please contact us as it might be possible to reduce the impact of this charge. This could be achieved by reducing your income for this purpose by, for example, making additional pension contributions or charitable donations or reviewing how profits are shared and extracted from the family business.

Earning between £100k to £123.7k or over £150k? Read on...

If your income is likely to be between £100,000 and £123,700 in this tax year, then you stand to pay income tax at a marginal rate of 60% due to the gradual withdrawal of the personal allowance. Meanwhile, if you are earning over £150,000, your income is taxed at 45%. Again, there are steps you can take to minimise your tax liability for 2018/19:

- **Make pension contributions** – tax relief is limited to pension contributions of up to £40,000. There is the possibility of using unused allowances from prior years, but you must utilise the 2018/19 allowance first.
- **Make (and record) gift aid payments.** There is still the facility to elect to carry back donations made after 6 April 2019 on your 2019 tax return provided it is submitted by 31 January 2020. This election cannot be made on an amended return, only the original submission.
- **Consider deferring income or dividend payments until after 5 April 2019.**

Longer term considerations

- **Income tax relief is available at 30% for qualifying subscriptions in Enterprise Investment Schemes (EIS) and Venture Capital Trusts.** Qualifying Seed EIS subscriptions are limited to £100,000 per year per individual, attract income tax relief at 50% and, subject to conditions, capital gains made in the year in which the income tax relief is claimed may be partially exempted.
- **Consider transferring income generating assets to a spouse paying lower rates.** The potential disparity between the basic tax rate (20%) and the highest rate (45%) means that you can improve your after-tax return by 25%.
- **Invest for capital gains rather than income.** Many people do not use their capital gains tax annual exemptions despite this being worth £11,700 in the current tax year.
- **Consider making use of your annual inheritance tax (IHT) free limits** to give away assets which are surplus to your needs. For example, you could gift £3,000 a year to children or grandchildren on an annual basis.

Pension planning for those who regularly earn over £110,000

The maximum amount of pension savings that qualifies for tax relief each tax year is £40,000. However, from 2016/17 those with 'adjusted income' over £150,000 and 'threshold income' over £110,000 receive a tapered annual allowance.

The annual allowance tapers by £1 for every £2 that adjusted income exceeds £150,000, down to a minimum annual allowance of £10,000. If you fund your pension at higher levels than these, the additional contributions will be taxed at a rate of 45%.

However, it is possible to increase this amount by utilising unused relief brought forward from the previous three tax years, provided the individual was a member of a pension scheme in those years i.e. for the current tax year 2018/19 the unused relief from 2015/16 followed by 2016/17 and then 2017/18 may be utilised.

You need to act before 5 April 2019 to ensure you aren't potentially limiting the size of your pension contributions in the future. While acting does necessitate having spare cash, remember that only 80% of the gross premium is paid into the fund, and you will have a subsequent tax bill that will be lower by 25% of the value of the gross premium, thereby funnelling some of the cash back to you later.

There is a limited window of opportunity to carry forward from the 2015-16 tax year. This is 5 April 2019, when the tax year ends.

Any questions?

Should you have any questions or wish to discuss further, please feel free to contact your usual contact in the McBrides tax department on 020 8309 0011 or tax@mcbridesllp.com.