

# TAX & FINANCIAL STRATEGIES

2020/21



**CowleyHolmes**  
Accountants and Business Advisers

*"Keeping you advised, up to date and in control"*

9 Goldington Road  
Bedford MK40 3JY  
Tel: 01234 355300

Email: [mail@cowleyholmes.co.uk](mailto:mail@cowleyholmes.co.uk)

Web: [www.cowleyholmes.co.uk](http://www.cowleyholmes.co.uk)

# Tax and Financial Strategies 2020/21

As the impact of COVID-19 continues to create unprecedented challenges for the UK economy, taxpayers are advised to keep their accounts up to date. It is more important than ever to plan ahead and make sure you are using the reliefs available to you.

This guide is designed to help you to make the most of your business and your personal finances by highlighting the main tax allowances and incentives and suggesting strategies that you might wish to incorporate into your own financial planning.

Of course, minimising your tax liability represents just one element of your overall planning strategy. Every individual and business situation is different, and your needs will vary according to your own specific circumstances. We recommend that you use this guide as a starting point, and contact us for expert, tailored advice on any areas which apply to you.

As your advisers, we can help you to clarify your wider objectives, and suggest a range of strategies to help you achieve your personal and business goals.

## How to benefit from our services:

Please read those chapters which are relevant to you as soon as possible.

- Take note of the key points arising from this guide, and any action you may wish to consider
- Contact us to discuss your action points, and to evaluate your long-term financial plans.

**We would welcome the opportunity to assist you.**

| Contents                                 | Page |
|------------------------------------------|------|
| Introduction                             | 2    |
| Personal tax essentials                  | 3    |
| Business tax strategies                  | 4    |
| Tax and employment                       | 9    |
| Business exit strategies                 | 12   |
| Personal and family financial strategies | 14   |
| Retirement planning strategies           | 16   |
| Savings and investment strategies        | 18   |
| Tax-efficient estate planning            | 20   |
| Key planning points                      | 23   |
| Tax Calendar                             | 24   |

*The general effect of the Civil Partnership Act is to treat registered civil partners on a consistent basis with married couples. For the purposes of this guide we have on occasions referred only to spouses.*

*'HMRC' refers to HM Revenue & Customs.*

*This guide is based on current understanding of legislation and the government's proposals at the time of publication and under no circumstances should action be taken without first seeking appropriate professional advice.*



# Introduction

The impact of the COVID-19 pandemic has presented the UK with major challenges, which continue to unfold in terms of both scale and complexity. Against this backdrop the government has introduced short-term measures to help businesses.

**These measures, being temporary in nature, are not covered here. In this summary we focus on the other tax measures which may assist you, your family and your business when looking at longer term prudent financial planning.**

## Structure and Buildings Allowance

The rate of Structure and Buildings Allowance available on qualifying investments to construct new, or renovate old, non-residential structures and buildings increases to 3% from April 2020 and results in a welcome reduction of up to 17 years in the write-off period for this capital expenditure.

## Entrepreneurs' Relief - Lifetime Limit

Further reform to Entrepreneurs' Relief (ER) was not unexpected in the March 2020 Budget and the reduction in the lifetime limit from £10 million to £1 million for qualifying disposals made on or after 11 March 2020 was welcome when compared with the potential for complete abolition of this valuable relief for those in business.

No further consultations are expected on further changes to ER relief in the coming year.

## Relief for gains made on private residences

There have been a number of changes made to the Private Residence Relief (PPR) from April 2020.

When the property has been let, or empty for a period of time, the final period of ownership which can be counted towards the relief due to reduce the Capital Gains Tax (CGT) is reduced from 18 months to nine months. Together with the abolishment of the relief due for periods when the property has been let, for all but those residing with their lodgers, could result in a higher CGT liability for those selling properties.

Changes have also been made to the relief available when one spouse transfers the ownership of a property to the other spouse, when they do not reside in the property at the time of the transfer. Should the couple subsequently choose to reside in the property, this small change could potentially result in the property qualifying for full PPR relief for the full period of ownership.

## Off-payroll working in the private sector

It was the government's intention that from April 2020 the off-payroll working rules, which currently apply to those contracting to public bodies, should also apply to contractors operating through personal services companies or intermediaries working within the private sector.

These rules can have the effect of subjecting the profits made by the intermediary in respect of the engagement (the 'deemed payment') to PAYE and NICs as if the contractor was an employee.

Plans have been delayed until April 2021 as a result of the COVID-19 pandemic, giving contractors more time to review contracts and working arrangements with their clients.



## Your financial planning strategy

In the face of ongoing change, it is more important than ever to have a robust business and personal financial planning strategy in place, to help ensure that you and your family are financially secure and on course to achieve your long-term goals.

We can help with all of your business and personal tax and financial planning needs. For a strategic review of your finances, please contact us.



# Personal tax essentials

## Personal allowance

Each individual is entitled to his or her own personal allowance (PA) of £12,500 for 2020/21. The PA reduces an individual's taxable income. For those with income in excess of £100,000, the allowance is restricted.

After reducing income by the PA a series of rate bands are assigned first to your non-savings (this may include income from wages, self-employment, property income and pensions), then to your savings income, and finally to any dividend income.

## Income tax rates for 2020/21

Non-savings income for English and Northern Irish taxpayers is taxable as follows:

| Band £           |                      | Rate % |
|------------------|----------------------|--------|
| 0 - 37,500       | Basic rate (BR)      | 20     |
| 37,501 - 150,000 | Higher rate (HR)     | 40     |
| Over 150,000     | Additional rate (AR) | 45     |

## Welsh taxpayers

The National Assembly for Wales has the right to vary the rates of income tax payable by Welsh taxpayers. The Welsh rate of income tax has been set at 10% and is added to the UK rates, which are each reduced by 10%. This means that for 2020/21, the tax payable by Welsh taxpayers continues to be the same as English and Northern Irish taxpayers.

## Scottish taxpayers

However, the following rates and bands apply for Scottish taxpayers (on non-savings and non-dividend income):

| Band £           | Band Name    | Rate % |
|------------------|--------------|--------|
| 0 - 2085         | Starter      | 19     |
| 2,086 - 12,658   | Basic        | 20     |
| 12,659 - 30,930  | Intermediate | 21     |
| 30,931 - 150,000 | Higher       | 41     |
| Over 150,000     | Top          | 46     |

## Rates that apply across the UK

### Savings income

The Personal Savings Allowance (PSA) applies to income such as bank and building society interest. The allowance applies for up to £1,000 of a basic rate taxpayer's savings income, and up to £500 of a higher rate taxpayer's savings income each year. The allowance is not available to additional rate taxpayers.

In addition to the PSA, some taxpayers benefit from the starting rate for savings, which taxes £5,000 of savings income at 0%.

This is not available if the taxable non-savings income exceeds the starting rate band.

### Dividend income

The Dividend Tax Allowance (DTA) is £2,000. The DTA does not change the amount of income that is brought into the income tax computation. Instead, it charges £2,000 of the dividend income at 0% tax – the dividend nil rate. Like the PSA, the DTA does not reduce total income for tax purposes, and dividends within the allowance still count towards the appropriate basic or higher rate bands. Dividends in excess of the DTA are taxed at 7.5% (BR); 32.5% (HR); and 38.1% (AR).

### Case Study

Tina has gross income of £56,000 (made up of £26,000 earnings, £5,000 of interest and UK dividends of £25,000). Her tax liability is £6,825.

|                                      | Earnings         | Interest       | Dividends        |
|--------------------------------------|------------------|----------------|------------------|
| Income and gains                     | 26,000           | 5,000          | 25,000           |
| Deduct: PA                           | -12,500          |                |                  |
| Deduct: AE                           |                  |                |                  |
| Taxable                              | 13,500           | 5,000          | 25,000           |
| <b>Tax at:</b>                       |                  |                |                  |
| 0% on PSA / DTA                      | 0                | 500            | 2,000            |
| 20% on                               | 13,500           | 4,500          |                  |
| 7.5% on                              |                  |                | 17,000           |
| 32.5% on                             |                  |                | 6,000            |
| <b>Total tax</b>                     | <b>£2,700.00</b> | <b>£900.00</b> | <b>£3,225.00</b> |
| <b>Total tax liability £6,825.00</b> |                  |                |                  |

## The 'hidden' 45% and 60% tax rates

The top rate of income tax, for those with taxable income in excess of £150,000, is 45% (38.1% for dividends). The PA is scaled back if 'adjusted net income' exceeds £100,000, being reduced by £1 for every £2 of income in excess of that limit. This means that an individual with total taxable income of £125,000 or more will not be entitled to any PA. This gives an effective tax rate on this slice of income of 60% – higher if you are a Scottish taxpayer paying the Scottish Top rate of tax of 46%. It may be possible to reduce your taxable income and retain your allowances if approached with due consideration, e.g. by making pension contributions or Gift Aid donations. Contact us now for advice on minimising the impact of the top tax rates.



# Business tax strategies

## Starting a business

Starting a business is an exciting and challenging experience, and one which also carries a fair degree of risk. During the start-up phase you will need to make all kinds of decisions that could be critical to the long-term success of the enterprise. You'll need to consider such things as the type of business and its attributes; your target market and competition; profit potential and how you will extract those profits; the rate of business growth; and the impact of running the business on your personal life. At some point, you'll also need to consider how you will exit the business when the time comes, and realise its value. We can provide expert, tailored advice and help you avoid the common mistakes.

**Writing a business plan** – One of the first things you need to consider is your business plan. This is not only for the benefit of potential investors, but to help you stay on the right course in the short, medium and long-term. It should include: the business structure that best meets your needs (such as sole trader, partnership, limited liability partnership or limited company); your intended funding sources; tax-efficient borrowings; whether a PAYE scheme is necessary; and whether the business should be VAT registered.

We can guide you through these important decisions, and help you to complete the appropriate registrations. We can assist with cash flow forecasts, helping you to spot potential cash shortfalls, and provide regular updates so you can monitor your business's performance.

**Choosing your business structure** – Deciding on the most appropriate structure for your business isn't necessarily straightforward. Sole traders, partnerships, limited companies and limited liability partnerships all have their own pros and cons, with different implications for control, perception, support and costs. For example, careful consideration is needed regarding whether or not to retain personal ownership of any freehold property on incorporation. We can help you to decide on the best structure for your business.

**Deciding on a year end** – It's also important to choose a year end that suits your business. Is there a time of year when it will be more convenient to close off your accounting records, ready for us? What time of year would be best for stock-taking? Is your trading seasonal? From a tax perspective, choosing a year end early in the tax year for an unincorporated business usually means that an increase in profits is more slowly reflected in an increased tax bill, and over time the delay between earning profits and paying the tax can create a source of working capital for the business. On the other hand, a decrease in profits will more slowly result in a lower tax bill. Speak to us for advice about choosing your year end.

**Registering with HMRC** – When you start a business, it is important to inform HMRC of your new self-employed status as soon as possible. If and when you take on employees you need to register for and set up a PAYE scheme and accept all

the responsibilities and obligations that go with it, including compliance with Real Time Information reporting (and remember for this purpose *you* will most likely be an employee of your limited company, if you incorporate). You will also have to comply with the pensions auto-enrolment obligations, although exemptions apply to director-only companies, so do get in touch for advice in this area.

Please talk to us as soon as you envisage having employees so we can help you set up a PAYE scheme and comply with your payroll obligations, or take on the task on your behalf.

| Starting a business – Action Plan                | ✓ |
|--------------------------------------------------|---|
| Prepare a robust business plan                   |   |
| Ensure that you have access to suitable funding  |   |
| Check your right to use your chosen trading name |   |
| Choose the right business structure              |   |
| Register with HMRC                               |   |
| Register for VAT                                 |   |
| Register your business name                      |   |
| Trade and professional registrations             |   |
| Choose your year end                             |   |
| Plan to reduce your tax liability                |   |
| Develop your branding                            |   |
| Involve the family                               |   |
| Plan to avoid fines and penalties                |   |

## Claiming expenses

As your accountants and tax advisers, our job is to help ensure that you benefit from all of the allowances and reliefs available to you. You will pay tax on your taxable profits, so a crucial element of tax planning is to claim all deductible expenses, many of which will be included in your accounting records.

If you are self-employed and carry on your business from home, you can claim tax relief on part of your household expenses, including insurance, repairs and utilities. You may also be able to claim for the cost of travel and accommodation when you are working away from your main place of business, so you should keep adequate business records, such as a log of business journeys. In addition to ensuring that your accounts are accurate, these records may also be requested by HMRC.

As part of Making Tax Digital for VAT, taxpayers are required to use an appropriate computer package to aid concise and effective record-keeping and to enable them to meet their Making Tax Digital and VAT obligations. We can advise you on suitable software to meet your business needs.

You may also wish to consider the voluntary cash basis for calculating taxable income for small businesses, which allows



eligible self-employed individuals and partnerships to calculate their profits on the basis of the cash that passes through their business. Businesses are eligible if they have annual receipts of up to £150,000 and they will be able to continue to use the cash basis until receipts reach £300,000. This is something we should discuss with you in detail if you are eligible. Allowable payments include most purchases of plant and machinery, when paid, rather than claiming capital allowances.

Unincorporated businesses are able to choose to deduct certain expenses on a flat rate basis. However, this is worth discussing before opting for it, as the flat rates are not generous.

## Capital allowances

‘Capital allowances’ is the term used to describe the deduction we are able to claim on your behalf for capital expenditure, such as business equipment, in lieu of depreciation.

### Annual Investment Allowance (AIA)

The majority of businesses are able to claim a 100% Annual Investment Allowance (AIA) on a portion of expenditure on most types of plant and machinery (except cars). The AIA applies to businesses of any size and most business structures, but there are provisions to prevent multiple claims.

The AIA temporarily increased from £200,000 to £1 million, for two years from 1 January 2019 to 31 December 2020 and will revert to £200,000 from 1 January 2021. Companies with accounting periods which straddle 1 January 2021 will need to calculate a hybrid allowance using the two rates. It is therefore important to time the purchase of plant and machinery carefully, in order to make the most of the increase.

Businesses are able to allocate their AIA in any way they wish, so it is quite acceptable for them to set their allowance against expenditure qualifying for a lower rate of allowances (such as integral features).

### Writing Down Allowance (WDA)

Any expenditure not covered by the AIA enters either the main rate pool or the special rate pool, attracting WDA at the appropriate rate – 18% and 6% respectively for 2020/21.

The special rate pool applies to higher emission cars, long-life assets and integral features of buildings, specifically:

- electrical systems (including lighting systems)
- hot and cold water systems
- space or water heating systems, powered systems of ventilation, air cooling or purification and any floor or ceiling comprised in such systems
- lifts, escalators and moving walkways
- external solar shading.

For most other plant and equipment, including some cars, the main rate applies.

A WDA of up to £1,000 may be claimed by businesses where the unrelieved expenditure in the main pool or the special rate pool is £1,000 or less.

### Enterprise Zones

Designated sites within Enterprise Zones qualify for enhanced capital allowances. In these sites, 100% First Year Allowances is available for expenditure incurred by trading companies on qualifying on new energy saving or environmentally friendly equipment.

### Cars

The tax allowance on a car purchase depends on CO<sub>2</sub> emissions. Currently purchases of new unused cars with emissions of up to 50g/km attract a 100% first year allowance. For cars purchased with CO<sub>2</sub> emissions exceeding 50g/km, the main rate of 18% applies. However, cars with CO<sub>2</sub> emissions above 110g/km will be restricted to the special rate WDA of 6%. From April 2021 cars with zero CO<sub>2</sub> emissions will qualify for a 100% first year allowance and the threshold for the main rate allowance will be reduced from 110g/km to 50g/km.

For non-corporates, cars with a non-business use element are dealt with in single asset pools, so the correct private use adjustments can be made but the rate of WDA will be determined by the car's CO<sub>2</sub> emissions. Remember, cars do not qualify for the AIA.

### Buildings

When a building is purchased for business use, it may be possible to claim capital allowances on plant elements contained therein, e.g. air conditioning, subject to certain conditions. A joint election may need to be made with the vendor. Please contact us for further details and advice prior to any purchase.

The Structures and Buildings Allowance is available on new, or the renovation of old, non-residential structures and buildings. Relief will be provided on eligible construction costs incurred on or after 29 October 2018, at an annual rate of 2% increasing to a rate of 3% from 1 April 2020 for corporation tax and 6 April 2020 for income tax on a straight-line basis.

## Research and Development (R&D) investment

Tax relief is available on R&D revenue expenditure incurred by companies at varying rates. The current rates of relief are as follows:

- for small and medium-sized companies paying corporation tax at 19%, the effective rate of tax relief is 43.7% (that is a tax deduction of 230% on the expenditure). For small and medium-sized companies not yet in profit, the relief can be converted into a tax credit payment, effectively worth 33.35% of the expenditure





- an 'above the line' credit exists for large company R&D expenditure. This is known as the R&D Expenditure Credit (RDEC) scheme and allows SMEs to claim a taxable credit of 13% for qualifying expenditure incurred on or after 1 April 2020. The credit is fully payable, net of tax, to companies with no corporation tax liability
- SMEs barred from claiming SME R&D tax credit by virtue of receiving some other form of state aid (usually a grant) for the same project may be able to claim under the large company RDEC scheme. An SME may also be entitled to the large company RDEC for certain work that has been subcontracted to it.

## Involving your family

You can employ family members in your business, as long as it can be justified commercially. Family members can be remunerated with a salary, and possibly also with benefits such as a company car or medical insurance. You can also make payments into a registered pension scheme.

Family members may also be taken into partnership, thereby gaining more flexibility in profit allocation. Taking your non-minor children into partnership and gradually reducing your own involvement as their contribution increases can be a very tax-efficient way of passing on the family business. Of course, you should be aware that this could put your whole family wealth at risk, if the business were to fail.

It is worth noting that HMRC may challenge excessive remuneration packages or profit shares for family members, so seek our advice first. In most cases, if you operate your business through a trading limited company, under current tax law you can pass shares on to other family members and thus gradually transfer the business with no immediate tax liability.

However, a tax saving for the donor usually impacts on the donee, and you need to steer clear of the 'settlements legislation', so again, contact us for advice before taking any action.

## Unincorporated businesses

Business profits are charged to income tax and Class 2 and Class 4 national insurance contributions (NICs) on the current year basis. This means that the profits 'taxed' for each tax year (ending 5 April) are those earned in the accounting period ending in the tax year.

For example, in the case of a trader who draws up his accounts to 31 July each year, his profits for the year ended 31 July 2020 will normally be taxed in 2020/21.

There are special rules for the early and final years of a business, and for partnership joiners and leavers.

Numerous 'fines' are being administered for those who fail to comply with the rules and regulations set by government

departments. We have already mentioned income tax but other possible 'traps' to avoid are:

- late VAT registration and late filing penalties
- late payment penalties and interest
- penalties for errors in returns
- penalties for late PAYE returns
- penalties for failing to operate a PAYE or sub-contractors scheme
- penalties for failing to comply with pensions auto-enrolment regulations.

In order to help you to steer clear of these pitfalls, we must receive all of the details for your accounts and Tax Returns in good time, and be kept informed of any changes in your business, financial and personal circumstances.

## Employment or self-employment?

There is no statutory definition of 'employment' or 'self-employment', so determining whether someone is employed or self-employed is not straightforward.

Instead, HMRC applies a series of 'tests' in order to ascertain whether someone is classified correctly. As large amounts of both tax and NICs can be at stake, HMRC often takes quite an aggressive line with regard to this issue, and errors can be costly, so seeking advice that is tailored to your situation is essential. Please contact us for assistance in this matter.

Under the 'IR35' rules, companies and partnerships providing the personal services of the 'owners' of the business must consider each and every contract they enter into for the provision of personal services. The test is whether or not the contract is one which, had it been between the owner or partner and the customer, would have required the customer to treat the owner or partner as an employee and therefore be subject to PAYE.

The contract 'passes' if the owner/partner would have been classified as self-employed; it fails if the owner/partner would have been classified as an employee. If the contract 'fails', the business is required to account for PAYE and NICs on the 'deemed' employment income from the contract at the end of the tax year. This is done using specific rules. We can advise you about these, so please contact us for further information.

The position for individuals working through their own company in the public sector changed from April 2017. The public sector employer, agency, or third party that pays the worker's intermediary now has to decide if the IR35 rules apply to a contract, and if so, account for and pay the relevant tax and NICs. The government planned to extend the IR35 rules to larger businesses in the private sector from April 2020. However, following the COVID-19 pandemic the extension to the private sector has been postponed 12 months until April 2021.

Contact us for the latest position.



## Whose risk?

If the question is whether an individual is an employee or self-employed, the risk lies with the 'engager' or payer – with a potential liability for the PAYE which should have been paid over without right of recourse to the 'employee'. If the question is whether or not IR35 applies, the question (and any liability due) is for the individual and his/her company (the payee) (unless the company is engaged in the public sector as explained above).

## Unpaid bills and unbilled work

As explained in this guide, small businesses may opt into the cash basis and calculate their profits on the basis of the cash passing through the business. However, it is a feature of the tax system that other businesses (including all corporates) must include in their turnover for the year the value of incomplete work, of unpaid bills (debtors) and of work completed but not yet billed, all as at the end of the year.

We will need to discuss with you exactly what needs to be identified and the basis of valuation. Keeping an eye on debtors and unbilled work is very important to your cash flow.

## Forming a limited company

Forming a limited company may be a consideration if the limitation of liability is important, but it should be noted that banks and other creditors often require personal guarantees from directors for company borrowings.

Trading through a limited company can be an effective way of sheltering profits. Profits paid out in the form of salaries, bonuses or dividends may be liable to top tax rates, whereas profits retained in the company will be taxed at 19%.

Funds retained by the company can be used to buy equipment or to provide for pensions – both of which can be eligible for tax relief. They could be used to fund dividends when profits are scarce (spreading income into years when you might be liable to a lower rate of income tax) or capitalised and potentially taxed at 10% and/or 20% on a liquidation or sale.

## National insurance contributions (NICs)

Leaving profits in the company may be tax-efficient, but you will of course need money to live on, so you should consider the best ways to extract profits from your business.

A salary will meet most of your needs, but you should not overlook the use of benefits, which could save income tax and could also result in a lower NIC liability.

Five key NIC-saving strategies:

- Increasing the amount the employer contributes to company pension schemes. Care should be taken however as there are limits on the amount of pension contributions an individual can make both annually and over their lifetime.

- Share incentive plans (shares bought out of pre-tax and pre-NIC income)
- For some companies, disincorporation and instead operating as a sole trader or partnership may be beneficial
- Instead of an increased salary, paying a bonus to reduce employee (not director) contributions
- Paying dividends instead of bonuses to owner-directors.

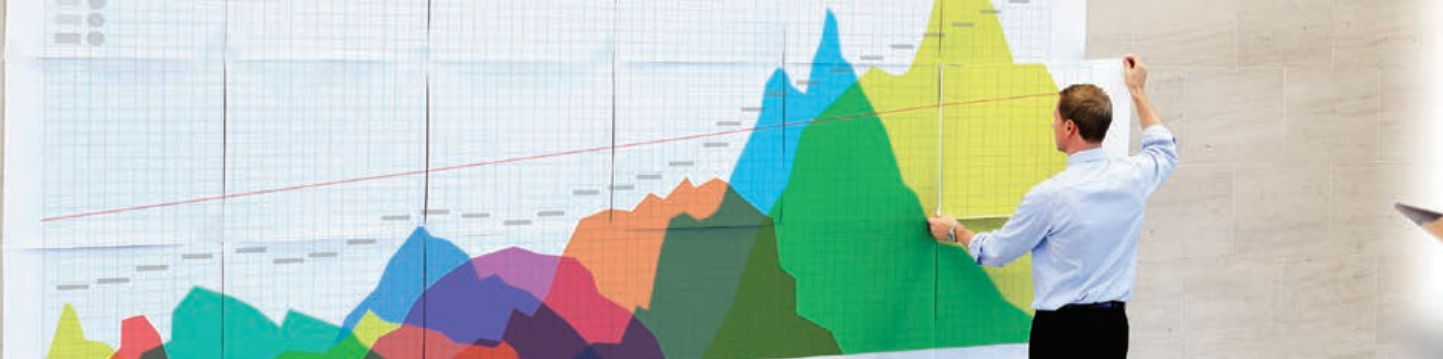
## Increasing your net income as an owner-director

As an example, consider how much you might save if, as an owner-director, you wanted to extract £10,000 profit (pre-tax) your company makes in 2020/21 by way of a dividend rather than a bonus. We have assumed in this scenario that the director has already taken salary in excess of the upper earnings limit for NICs, is a 40% taxpayer, and the £2,000 dividend tax allowance has already been utilised.

| Case Study                                                                                                                                                                   |            |               |
|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------|---------------|
| As you can see in this case study, the net income is increased by 7% by opting to declare a dividend. Be sure to discuss this with us, as this is a complex area of tax law. |            |               |
|                                                                                                                                                                              | Bonus<br>£ | Dividend<br>£ |
| Profit to extract                                                                                                                                                            | 10,000     | 10,000        |
| Employers' NICs (13.8% on gross bonus)                                                                                                                                       | -1,213     |               |
| Gross bonus                                                                                                                                                                  | 8,787      |               |
| Corporation tax (19% - dividend is not deductible for corporation tax)                                                                                                       |            | -1,900        |
| Dividend                                                                                                                                                                     |            | 8,100         |
| Employees' NICs (2% on gross bonus)                                                                                                                                          | -176       |               |
| Income tax (40% on gross bonus)                                                                                                                                              | -3,515     |               |
| Income tax on dividend (32.5%)                                                                                                                                               |            | -2,633        |
| Net amount extracted                                                                                                                                                         | 5,096      | 5,467         |

For Scottish taxpayers paying the Scottish Higher Rate of 41%, the net amount extracted on the bonus would be reduced to £5,008 (£8,787 less tax @ 41% and NICs of £176). The tax payable on dividends is the same wherever you are in the UK so the net income would be increased by 9%.





Remember that dividends are usually payable to all shareholders and are not earnings for pension contributions and certain other purposes. It is possible to waive dividends, although this can result in tax complications. Finally, you need to consider with us the effect of regular dividend payments on the valuation of shares in your company.

## Planning for the year end

Tax and financial planning should be undertaken before the end of your business year, rather than left until the end of the tax or financial year. Some of the issues to consider include:

- the impact that accelerating expenditure into the current financial year, or deferring it into the next, might have on your tax position and financial results
- making additional pension contributions or reviewing your pension arrangements
- how you might take profits from your business at the smallest tax cost, and how the timing of payment of dividends and bonuses can reduce or defer tax.

## Minimising the risk of late filing penalties

It is important to keep your personal tax affairs in order so that you avoid incurring any Tax Return late filing penalties. The cut-off dates are shown in the calendar but the penalties can be substantial.

The timetable for making tax payments is relatively straightforward for the self-employed:

- 31 January in the tax year, first payment on account
- 31 July after the tax year, second payment on account
- 31 January after the tax year, balancing payment.

A system of interest and penalties applies. For example, if any balance of tax or NICs due for 2019/20 is not paid within 30 days after 31 January 2021, further penalties may apply as HMRC will seek to charge a 5% late payment penalty as well as the interest that will be charged from 1 February 2021, with further 5% penalties chargeable on 31 July 2021 and 31 January 2022, plus interest on any outstanding liabilities.

If your business is incorporated, it will be liable to corporation tax. Corporation tax is usually payable nine months and one day after the end of the company's accounting period.

If there are cash flow issues, HMRC might be persuaded to accept a spreading of your next business tax payment – you will have to pay interest at the HMRC rate, but keep to the agreed schedule and late payment penalties will be waived. Arrangements need to be put in place before the due date for paying the tax, so talk to us in good time if you wish to apply.

## Payments on account

Payments on account are normally equal to 50% of the previous year's net liability and are due on 31 January in the tax year and 31 July following the tax year. Because of the COVID-19 outbreak, the second payment on account due for the 2019/20 tax year on 31 July 2020 can be deferred until January 2021.

A claim can be made to reduce your payments on account, if appropriate, although interest will be charged if your actual liability is more than the reduced amount paid on account. There is no equivalent mechanism to make increased payments on account when the year's tax will be higher, so you should ensure that you build a reserve of money to pay the balance of tax due.

**Don't wait until it's too late if you have difficulties!**  
**Please tell us in good time about any issues facing your business, as we may be able to offer solutions.**

Payments on account are not due where the relevant amount is less than £1,000 or if more than 80% of the total tax liability is met by income tax deducted at source. In these cases, the balance of tax due for the year, including capital gains tax, is payable on the 31 January following the end of the tax year.

### Case Study

Peter is self-employed. His accounts are made up to 31 August each year. When we prepare the 2020 Return we will be including his profit for the year ended 31 August 2019, and that is the profit which will be taxed for 2019/20.

Peter's payments on account for 2020/21 will automatically be based on the 2019/20 liability.

Because of the COVID-19 outbreak, Peter's profits for the year to 31 August 2020 are significantly less than the previous year. We can examine the figures, perhaps even prepare the annual accounts and, taking into account any other sources of taxable income, make a claim to reduce Peter's 2020/21 payments on account, easing his cash flow by reducing the tax payments due in January and July 2021.

### Your next steps: contact us to discuss...

- Starting up a new business
- Raising finance for your venture
- Timing capital and revenue expenditure to maximum tax advantage
- Minimising employer and employee NIC costs
- Improving profitability and developing a plan for tax-efficient profit extraction

# Tax and employment

In this section we consider some of the most important tax issues for both employers and employees.

## Is your tax code correct?

The purpose of the PAYE system is to collect the right amount of tax from your earnings throughout the course of the year. Your employer uses your tax code – or sometimes a series of tax codes – to work out how much tax to deduct from your earnings.

However, if individuals have an incorrect tax code, they can go for years paying the wrong amount of tax – either too much or, perhaps more worryingly, too little. In particular, they may not have notified HMRC of changes in their circumstances that would affect their tax position, such as a change in jobs or acquiring or losing the benefit of a company car. Alternatively, they may have started or stopped investing in a personal pension plan.

Checking your PAYE code now is vital: it is much easier to rectify mistakes before the tax year ends. As a first step, you should look at your salary slip to see which code is currently being applied.

The letter in the code tells us whether your code includes one of the standard allowances, and you can see if this is right for your circumstances. The letters are as follows:

**L** – includes the basic personal allowance

**N** – taxpayers who are ‘transferors’ of the Marriage Allowance

**M** – taxpayers who are ‘recipients’ of the Marriage Allowance

**T** – there is usually an adjustment in your code which requires manual checking by HMRC each year – for example, you might have a tax underpayment being ‘coded out’

**K** – HMRC may try to increase the tax you pay on one source of income to cover the tax due on another source which cannot be taxed directly – for example, the tax due on your taxable employment benefits might be collected by increasing the amount of tax you would otherwise pay on your company salary. A ‘K’ code applies when the ‘other income’ adjustment reduces your allowances to less than zero – in effect, it means that the payer has to add notional income to your real income for PAYE purposes.

The maximum tax which can be deducted is 50% of the source income.

HMRC will often try to collect tax on other income through your PAYE code, but you may prefer to pay the tax through self assessment. For more information on this, please contact us, as we can arrange for the adjustment to be removed.

If you are resident in Scotland you will pay Scottish income tax. In such cases, your code will start with an ‘S’ to tell your employer to deduct tax using the Scottish income tax rates and bands on your pay.

If you are resident in Wales you pay the Welsh rates of income tax. The codes for Welsh taxpayers begin with a ‘C’.

## Dynamic coding

HMRC use information received from employers, such as notification of a new benefit, to recalculate employee tax codes in real-time. Where a potential underpayment is identified, HMRC make an in-year adjustment to the code for the current tax year (so-called ‘dynamic coding’), rather than waiting until the following tax year to code out the difference.

## Employer loans

Where loans from an employer total more than £10,000 at any point during the tax year, tax is chargeable on the difference between any interest actually paid and interest calculated at the official rate of 2.25%. Please contact us for the latest position.

## Expense payments

Expense payments are generally exempt, and do not need to be reported to HMRC on a form P11D. However, expense payments can still be subject to review from time to time, including during an employer compliance visit from HMRC.

You may be able to claim tax relief for other expenses you incur in connection with your job, but the rules are fairly restrictive.

An attractive remuneration package might include any of the following:

- A salary
- Bonus schemes and performance-related pay
- Reimbursement of expenses
- Pension provision
- Life assurance and/or healthcare
- A mobile phone
- Optional Remuneration Arrangements (OpRAs)
- Share incentive arrangements
- Trivial benefits-in-kind (BIK) (worth no more than £50 each)
- The choice of a company car
- Additional salary and reimbursement of car expenses for business travel in your own car
- Contributions to the additional costs of working at home
- Other benefits including, for example, an annual function costing not more than £150 (including VAT) per head, or long service awards.

Most benefits are fully taxable, but some attract specific tax breaks.



## Salary Sacrifice and Optional Remuneration

Transitional rules have been introduced where BIK have been offered through salary sacrifice or OpRAs, such that an income tax and NIC charge will arise on the higher of the salary sacrificed (or cash option) and the value of the BIK taken. What the benefit is will determine when the rules change. By taking the BIK, the only saving made will be in employee NICs. By 6 April 2021, all BIK will be covered by these rules, except for pension contributions; childcare provided in workplace nurseries and Employer Supported Childcare (usually by way of childcare vouchers); cycle to work schemes; and ultra-low emission cars.

## Contributing to a pension scheme

Employer contributions to a registered employer pension scheme or your own personal pension policies are not liable for tax or NICs. Please be aware that while your employer can contribute to your personal pension scheme, these contributions are combined with your own for the purpose of measuring your total pension input against the 'annual allowance'.

## Travel and subsistence costs

Site-based employees may be able to claim a deduction for travel to and from the site at which they are working, plus subsistence costs when they stay at or near the site.

Employees working away from their normal place of work can claim a deduction for the cost of travel to and from their temporary place of work, subject to a maximum period.

| Approved business mileage allowances – own vehicle |                    |            |
|----------------------------------------------------|--------------------|------------|
| Vehicle                                            | First 10,000 miles | Thereafter |
| Car/van                                            | 45p                | 25p        |
| Motorcycle                                         | 24p                | 24p        |
| Bicycle                                            | 20p                | 20p        |

## The company car

The company car continues to be an important part of the remuneration package for many employees, despite the rises in the taxable benefit rates over the last few years.

Employees and directors pay tax on the provision of the car and on the provision of fuel by employers for private mileage. Employers pay Class 1A NICs at 13.8% on the same amount.

This is payable by the 19 July following the end of the tax year.

The charge on cars is generally calculated by multiplying the list price of the car by a percentage which depends on the CO<sub>2</sub> emissions (recorded on the Vehicle Registration Document) of the car. You then pay tax at 20%, 40% or 45% on this charge depending on your overall tax position. The tax rates applicable to Scottish taxpayers range from 19% to 46%.

The table below shows the percentages for 2020/21. The table is divided into two columns for cars registered up to 5 April 2020 and those registered after that date. The table reflects the differences between the new Worldwide harmonised Light vehicle Test Procedure (WLTP) and the New European Driving Cycle (NEDC) test it is replacing.

For most company cars registered after 5 April 2020 car benefit rates have been reduced by two percentage points for 2020/21 from the rates previously announced for that year. Additionally, to accelerate the shift to zero-emission cars, all zero-emission models, regardless of when they were registered, will be subject to a 0% rate. Thus drivers of these cars will pay no company car tax in 2020/21. Both these rates will rise by a single percentage point in each of the following two tax years.

In addition, the government has reduced the percentages which apply to lower emissions cars and introduce new performance-related bands for hybrid vehicles with emissions up to 50 g/km depending on how far the hybrid vehicle can travel under electric power.

| 2020/21                                                                                                                                                                                                                                                                                                     | Cars registered after 5.4.20 | Cars registered before 6.4.20 |
|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------|-------------------------------|
| CO <sub>2</sub> emissions (g/km)                                                                                                                                                                                                                                                                            | % of list price taxed        | % of list price taxed         |
| 1 – 50                                                                                                                                                                                                                                                                                                      | 0                            | 0                             |
| Electric range >130                                                                                                                                                                                                                                                                                         | 0                            | 2                             |
| 70-129                                                                                                                                                                                                                                                                                                      | 3                            | 5                             |
| 40-69                                                                                                                                                                                                                                                                                                       | 6                            | 8                             |
| 30-39                                                                                                                                                                                                                                                                                                       | 10                           | 12                            |
| <30                                                                                                                                                                                                                                                                                                         | 12                           | 14                            |
| 51 – 54                                                                                                                                                                                                                                                                                                     | 13                           | 15                            |
| 55 – 59                                                                                                                                                                                                                                                                                                     | 14                           | 16                            |
| 60 – 64                                                                                                                                                                                                                                                                                                     | 15                           | 17                            |
| 65 – 69                                                                                                                                                                                                                                                                                                     | 16                           | 18                            |
| 70 – 74                                                                                                                                                                                                                                                                                                     | 17                           | 19                            |
| 75 – 79                                                                                                                                                                                                                                                                                                     | 18                           | 20                            |
| 80 – 84                                                                                                                                                                                                                                                                                                     | 19                           | 21                            |
| 85 – 89                                                                                                                                                                                                                                                                                                     | 20                           | 22                            |
| 90 – 94                                                                                                                                                                                                                                                                                                     | 21                           | 23                            |
| For every additional 5g thereafter add 1% until the maximum percentage of 37% is reached.                                                                                                                                                                                                                   |                              |                               |
| For fully diesel cars generally add a 4% supplement (unless the car is registered on or after 1 September 2017 and meets the Euro 6d emissions standard) but the maximum is still 37%. For emissions over 75g/km if the CO <sub>2</sub> figure does not end in a 5 or a 0 round down to the nearest 5 or 0. |                              |                               |





## Car – fuel-only advisory rates

| Engine capacity                              | Petrol | Diesel | Gas |
|----------------------------------------------|--------|--------|-----|
| Up to 1400cc (1600cc for diesel)             | 10p    | 8p     | 6p  |
| 1401cc – 2000cc (1601cc – 2000cc for diesel) | 12p    | 9p     | 8p  |
| Over 2000cc                                  | 17p    | 12p    | 11p |

Rates from 1 June 2020 and are subject to change. Note the advisory fuel rates are revised in March, June, September and December. In addition, a rate of 4 pence per mile can be paid to electric-only company car drivers.

## Pooling your resources

Some employers find it convenient to have one or more cars that are readily available for business use by a number of employees. The cars are only available for genuine business use and are not allocated to any one employee. Such cars are usually known as pool cars. The definition of a pool car is very restrictive, but if a car qualifies there is no tax or NIC liability.

## Mileage allowance vs free fuel

A frequently asked question is: would I be better off giving up the company car and instead claiming mileage allowance for the business travel I do in my own car? In most cases, you are more likely to be better off if your annual business mileage is high.

Another frequent question is: would I be better off having my employer provide me with fuel for private journeys, free of charge, and paying tax on the benefit, or bearing the cost myself? In this case, you are only likely to be better off taking the free fuel if your annual private mileage is high. However, the cost to the employer of providing this benefit is likely to be high.

Every case should be judged on its own merits, and considered from both the employee's and the employer's point of view.

## Fuel for private travel

If your employer provides fuel for any private travel, there is a taxable benefit, calculated by applying the same percentage used to calculate the car benefit to the fuel benefit charge multiplier of £24,500. You can avoid the car fuel charge either by paying for all fuel yourself and claiming the cost of fuel for business journeys at HMRC's fuel-only advisory rates, or by reimbursing your employer for fuel used privately using the same rates.

## Considering a company van

Where a company vehicle is still appropriate, it is worth considering a van as opposed to a car. Unrestricted use of a company van results in a taxable benefit of £3,490, with a further £666 benefit if free fuel is also provided. Limiting the employee's private use to only home-to-work travel could reduce both figures to zero.

## Considering a company car

### Case Study

Laura is an owner-director. Her company car (registered before 6 April 2020) has a list price of £25,785. The car runs on petrol and emits CO<sub>2</sub> at a rate of 148g/km.

Laura pays tax at 45% and her 2020/21 tax bill on the car is therefore £3,945 (£25,785 x 34% x 45%). Laura's company will pay Class 1A NICs of £1,210 (£25,785 x 34% x 13.8%).

The company also pays for all of Laura's petrol. Because she does not reimburse the cost of fuel for private journeys, she will pay tax of £3,748 (£24,500 x 34% x 45%) and the company will pay Class 1A NICs of £1,149 (£24,500 x 34% x 13.8%). The total tax and NIC cost is £10,052. Furthermore, as well as paying for the fuel, the company will also need to pay a gross amount of over £14,515 to provide Laura with the funds to pay the tax and employee NICs.

When employers' national insurance is taken into account, the gross cost before tax relief of funding Laura's tax and the NIC liabilities will be over £16,518.

## Childcare schemes

In 2017, the government introduced a tax incentive for childcare, Tax-Free Childcare (TFC). Under TFC, the tax relief available is 20% of the costs of childcare, up to a total of childcare costs of £10,000 per child per year. The scheme will therefore be worth a maximum of £2,000 per child (£4,000 for a disabled child). Parents are able to apply for TFC for children under 12 (up to 17 for children with disabilities).

To qualify for TFC all parents in the household must generally meet a minimum income level, based on working 16 hours a week (generally £139 a week) and each earn less than £100,000 a year and not already be receiving support through Tax Credits or Universal Credit.

### Your next steps: contact us to discuss...

- PAYE and payroll issues
- Ensuring you have the correct PAYE code
- Putting together an attractive and tax-efficient remuneration package
- Cutting the cost of company cars and reviewing the alternatives
- Minimising NIC costs and understanding the tax implications of company cars



# Business exit strategies

## The importance of forward planning

At some point you will want to stop working in your business and either sell up, in which case business exit planning is a crucial element of your financial strategy, and could make all the difference to your long-term personal finances. Alternatively, you may wish to hand over the reins to your successors, in which case good planning will also help to ensure a smooth transition.

Important issues to consider include:

- passing on your business to your children or other family members, or to a family trust
- selling your share in the business to your co-owners or partners
- selling your business to some or all of the workforce
- selling the business to a third party
- public flotation or sale to a public company
- winding up
- minimising your tax liability
- what you will do when you no longer own the business.

## Selling the business

If your business has a market value, or if you are looking to your business to provide you with a lump sum on sale, it is important to start planning in advance, especially if you envisage realising the value of your business in the next 20 years. Selling your business is a major personal decision and it is very important to plan now if you want to maximise the net proceeds from its sale.

You will need to consider:

- the timing of the sale
- the prospective purchasers
- the opportunities for reducing the tax due following a sale.

We can help with these considerations.

## Maximising the sale value

Up-to-date management accounts and forecasts for the next 12 months and beyond will be close to the top of the list of the information which you will need to make available to prospective purchasers.

Anyone who is considering buying your business will want to be clear about the underlying profitability trends. Are profits on the increase or declining? Historical profits drive the value attributable to many businesses, and therefore a rising trend in profitability should result in an increase in the business's value.

This means that profitability planning is particularly important in the years leading up to the sale. So, what is the range of values for your business?

A professional valuation will put you on more solid ground than educated guesswork. We can work with you to determine how you can add value to your business.

## Your business valuation

When considering business valuations, some of the key questions to ask are:

- Are sales declining, flat, growing only at the rate of inflation or exceeding it?
- Are stock and equipment a large part of your business's value, or is yours a service business with limited fixed assets?
- To what extent does your business depend on the health of other industries/the economy?
- What is the outlook for your line of business as a whole?
- Are your business's products and services diversified?
- How up to date is your technology?

## When is the best time to sell?

It is important to consider a number of factors when deciding on the best time to sell your business. These could be factors that may influence potential buyers as well as your own personal circumstances.

**Personal factors** to consider might include:

- When are you planning to retire?
- Do you have any health issues?
- Do you still relish the challenges of running your business?
- Does your business have an heir apparent?
- Will your income stream and wealth be adequate, post-sale?

Meanwhile, **business questions** might be:

- What are the current trends in the stock market?
- To what extent is your business 'trendy' or at the leading edge?
- Is your business forecasting increases to the top and bottom lines?
- How well is your business performing when compared to other, similar businesses?
- Is your business running at, or near, its full potential?

## Considering capital gains tax (CGT)

Taxes are perhaps one of the less welcome aspects of a business person's life. When you raise that final sales invoice and realise the proceeds from the sale of your business, you should be completing one of the last steps in a strategy aimed at maximising the net return by minimising the CGT on sale.

As a basic rule, CGT is charged on the difference between what you paid for an asset and what you receive when you sell it, less your annual CGT exemption if this has not been set against other gains. There are several other provisions, which may also need to be factored into the calculation of any CGT liability.

CGT reliefs can reduce a 20% CGT bill significantly. To maximise your net proceeds it is vital that you consult with us about the timing of a sale, and the CGT reliefs and exemptions to which you might be entitled.



## Calculating your CGT liability

The taxable gain is measured simply by comparing net proceeds with total cost (including costs of acquisition and enhancement expenditure). The rate of tax depends on your overall income and gains position for 2020/21. Gains will be taxed at 10% to the extent that your taxable income and gains fall within the upper limit of the income tax basic rate band and 20% thereafter. These CGT rates are increased to 18% and 28% for 'carried interest' and gains on residential property.

A special tax relief, Entrepreneurs' Relief, is available for those in business, which may reduce the tax rate on the first £1 million of qualifying lifetime gains to 10%. This is targeted at working directors and employees who own at least 5% of the ordinary share capital of the company and the owners of unincorporated businesses.

The relief is available to individuals on the disposal after two complete qualifying years of:

- all or part of a trading business carried on alone or in partnership
- the assets of a trading business after cessation
- shares in the individual's 'personal' trading company
- assets owned by the individual used by the individual's personal trading company or trading partnership where the disposal is associated with a qualifying disposal of shares or partnership interest.

### 5% rules for company shareholders

To qualify for ER, the company needs to be an individual's personal company where the individual must:

- be a company employee or office holder
- hold at least 5% of the company's ordinary share capital and
- be able to exercise at least 5% of the voting rights.

They must also satisfy one of the following tests:

- a distribution test – an individual is entitled to at least 5% of the company's profit available for distribution to equity

holders and 5% of the assets available for distribution to equity holders in a winding up; or

- a proceeds test – an individual is entitled to at least 5% of the proceeds in the event of a disposal of the whole of the ordinary share capital of the company.

All planned transactions require careful scrutiny to ensure that the available Entrepreneurs' Relief is maximised. Remember to keep us in the picture – we are best placed to help and advise if you involve us at an early stage. Investors' Relief also provides a 10% rate with a lifetime limit of £10 million for each individual. The main beneficiaries of this relief are external investors in unquoted trading companies.

## CGT and non-residents

CGT is normally only chargeable where the taxpayer is resident in the UK in the tax year the gain arose, although the provisions of any double taxation treaty need to be checked. CGT may be avoided, provided the taxpayer becomes non-UK resident before the disposal and remains non-resident for tax purposes for five complete tax years.

## CGT and death

There is no liability to CGT on any asset appreciation at your death.

## Inheritance tax (IHT) and your business

**Lifetime transfers** – For the business owner, the vital elements in the IHT regime are the reliefs on business and agricultural property (up to 100%), which continue to afford exemption on the transfer of qualifying property, or a qualifying shareholding.

**Transfers on your death** – Remember to take into account your business interests when you draw up your Will. While reliefs may mean that there is little or no IHT to pay on your death, your Will is your route to directing the value of your business to your chosen heir(s) unless the disposition of your business interest on your death is covered by your partnership or shareholders' agreement.

### Your next steps: contact us to discuss...

- Getting your business ready for sale and minimising the tax due
- Identifying successors within the business
- Exploring possible purchasers
- Valuing your business
- Timing the sale and maximising the sale price
- Planning your transition to your next venture
- Providing for a transfer of your business interests at your death or in the event that you become incapacitated





# Personal and family financial strategies

## Looking to the future

It is likely that you will have a range of different financial requirements and goals. You might be looking to maximise your wealth so that you can enjoy more of your hard-earned money now and during retirement. You may need to pay for your children's education, or to help support ageing parents. As your accountants, we can suggest practical ways to help make your objectives become reality.

## Using allowances and exemptions

Each individual within your family is taxed separately, and is entitled to his or her own allowances and exemptions. The personal allowance (PA) is set at £12,500 for 2020/21, while the capital gains tax (CGT) annual exemption is £12,300.

By using the available PAs and gains exemptions, a couple and their two children could have income and gains of at least £99,200 tax-free, and income up to £200,000 before paying any higher rate tax. Through careful tax planning, we can help you and your family to benefit from more of your wealth.

Your tax planning objectives should include taking advantage of tax-free opportunities; keeping marginal tax rates as low as possible; and maintaining a spread between income and capital.

## The Marriage Allowance

Some married couples and civil partners are eligible for the Marriage Allowance, enabling spouses to transfer a fixed amount of their PA to their partner. The option is available to couples where neither pays tax at the higher or additional rate. If eligible, one partner will be able to transfer 10% of their PA to the other partner (£1,250 for the 2020/21 tax year). For those couples where one person does not use all of their PA, the benefit will be up to £250 (20% of £1,250).

## Transferring assets

Planning can be hindered by the potential for tax charges to arise when assets are moved between members of the family. Most gifts are potentially taxable as if they were disposals at market value, with a resulting exposure to CGT and inheritance tax (IHT). However, special rules govern the transfer of assets between spouses. In many cases, for both CGT and IHT there is no tax charge, but there are some exceptions – please contact us for further advice. In addition, gifts must be outright to be effective for tax, and must not comprise a right only to income. Careful timing and advance discussion with us are essential.

## High Income Child Benefit Charge

A charge arises on a taxpayer who has adjusted net income over £50,000 in a tax year where either they or their partner are in receipt of Child Benefit for the year. Where both partners have adjusted net income in excess of £50,000, the charge applies to the partner with the higher income.

The income tax charge applies at a rate of 1% of the full Child Benefit award for each £100 of income between £50,000 and £60,000. The charge on taxpayers with income above £60,000 will be equal to the amount of Child Benefit paid. Claimants may elect not to receive Child Benefit if they or their partner do not wish to pay the charge. Equalising income can help to reduce the charge for some families.

### Case Study

Mike and Becky have two children and receive £1,820 Child Benefit for 2020/21. Becky has little income. Mike expects his adjusted net income to be £55,000. On this basis the tax charge will be £910. This is calculated as  $£1,820 \times 50\%$  ( $£55,000 - £50,000 = £5,000 / £100 \times 1\%$ ).

If Mike can reduce his income by a further £5,000 no charge would arise. This could be achieved by transferring investments to Becky or by making additional pension or Gift Aid payments.

## Cap on reliefs

There is a 'cap' on certain otherwise unlimited tax reliefs (excluding charitable donations) of the greater of £50,000 and 25% of your income. This cap applies to relief for trading losses and certain types of qualifying interest.

## Giving your children a good start

Funding university degrees and saving up a deposit for a first home are increasingly expensive prospects, so the sooner you start planning, the better. All children have their own PA, so income up to £12,500 escapes tax this year, as long as it does not originate from parental gifts. If income from parental gifts exceeds £100 (gross), the parent is taxed on it, unless the child has reached 18, or has married. Parental gifts could be invested to produce tax-free income, or in a Cash or Stocks and Shares Junior Individual Savings Account (Junior ISA) to build a fund to help offset university expenses and minimise debts. The £100 limit does not apply to gifts into JISAs or National Savings Children's Bonds.

## Childcare scheme

The government's Tax-Free Childcare (TFC) scheme operates via an online childcare account. Under the TFC scheme, relief is given at 20% of the costs of childcare, up to a total childcare cost of £10,000 per child per year. The scheme is worth a maximum of £2,000 per child (£4,000 for a disabled child). All children under 12 years old are eligible (or up to 17 for children with disabilities), but parents must meet certain eligibility criteria.

## Generation skipping

If your child is grown up and financially secure, it may be worth 'skipping' a generation, as income from capital gifted by



grandparents or more remote relatives will usually be taxed as the child's, as will income distributions from a trust funded by such capital.

## Marriage breakdown

Maintenance payments do not usually qualify for tax relief. The special CGT and IHT treatment for transfers between spouses applies throughout the tax year in which separation occurs. For CGT, transfers in subsequent years are dealt with under the rules for disposals between connected persons, with the disposal treated as a sale at market value, which could result in substantial chargeable gains. For IHT, transfers remain exempt until the decree absolute. Timing is crucial; we can assist you.

## A contingency plan

Contingency planning could help to protect your family if you die or become incapacitated. This might include taking out adequate insurance cover, perhaps with life assurance written into trust to ensure quick access to funds. It is also essential to make a Will. We also strongly recommend that you and your spouse:

- **make a living Will (also called 'advance decisions')**: so that your wishes are clear with regard to medical treatment in the event that, for example, you were seriously injured following an accident
- **execute a lasting power of attorney**: so that if you become unable to manage your affairs as a result of an accident or illness, responsibility will pass to a person of your choosing.

Remember to tell your spouse, your parents, and your business partners where your Will and related documents are kept. If you are passing on responsibility for managing your affairs, it might be advisable to talk matters through with them.

## Unclaimed assets?

Billions of pounds of assets lie unclaimed in the UK! To see if you have lost assets contact the Unclaimed Assets Register on 0333 000 0182 or visit [www.uar.co.uk](http://www.uar.co.uk) (NB: a charge applies for this service). To find out if you have an unclaimed Premium Bond prize, call 08085 007 007 or visit [www.nsandi.com](http://www.nsandi.com).

## Non-UK domiciles

A UK resident and domiciled individual is taxed on worldwide income and gains. Non-UK domiciles who are UK resident can claim the remittance basis of taxation in respect of foreign income and gains, with the effect that they are only taxed if foreign income and gains are brought into the UK. They will however lose their entitlement to the personal allowance for income tax and the annual CGT exemption. There may also be a significant 'remittance basis charge' to pay. The non-UK domicile is also potentially favourably treated for IHT, as they only pay IHT in respect of UK assets, as opposed to their worldwide assets.

An individual who has been resident for at least 15 of the last 20 tax years will be deemed UK domiciled for all tax purposes. In addition, those who had a UK domicile at the date of their birth will revert to having a UK domicile for tax purposes whenever they are resident in the UK, even if, under general law, they have acquired a domicile in another country.

| Checklist: financial protection strategies                                   | Self<br>✓ | Spouse<br>✓ |
|------------------------------------------------------------------------------|-----------|-------------|
| <b>Essential:</b>                                                            |           |             |
| Will                                                                         |           |             |
| Living Will                                                                  |           |             |
| Lasting power of attorney                                                    |           |             |
| Life assurance                                                               |           |             |
| Keep papers in a safe place, and make sure other people know where they are! |           |             |
| <b>Seriously consider:</b>                                                   |           |             |
| Income, mortgage and loan protection insurance                               |           |             |
| Tax-efficient estate planning                                                |           |             |
| Planning for the transfer of your business                                   |           |             |
| Funeral arrangements and expenses                                            |           |             |
| A tax-efficient gift strategy                                                |           |             |

### Your next steps: contact us to discuss...

- Making the most of allowances and reliefs
- Ensuring that your tax liability is kept to a minimum within the law
- Using savings, capital and other vehicles to give your children a better start in life
- Writing a Will
- Life insurance and obtaining disability and critical illness insurance
- Tax-efficient savings and investments



# Retirement planning strategies

It is essential to ensure that you put aside sufficient funds during your working life to allow for a comfortable retirement in the future. You could spend a third of your life as a retired person, so by taking action now, you can help to make this period as financially secure as possible.

Many options are open to retirees in regard to how they use their savings. It is important to seek appropriate advice on the options available to you. Here we outline some of the key areas to take into consideration when planning for your 'golden years'.

## Initial considerations

Your retirement planning strategy will be determined by a number of factors, including your age and the number of years before retirement. However, there are some other key issues to consider:

- Do you have an employer pension scheme?
- Are you self-employed?
- How much can you invest for your retirement?
- How much State Pension will you receive?

Individuals who reached State Pension age after 5 April 2016 receive a flat-rate pension, worth £175.20 per week where they have at least 35 years of national insurance contributions (NICs) or credits.

Those who reached State Pension age before 6 April 2016 will continue to claim their basic State Pension (plus any additional state pension that they may be entitled to). The basic State Pension in 2020/21 is £134.25 a week.

To receive a State Pension forecast you can phone the Future Pension Centre on 0800 731 0175.

## Employer pension schemes

There are two kinds of employer pension scheme into which you and your employer may make contributions. A defined contribution scheme pays a retirement income reflecting the amount invested and the underlying investment fund performance. A defined benefit scheme pays a retirement income related to your earnings: such schemes are very rare. However, in both cases, you will have access to tax-free cash as well as to the actual pension.

The amount of personal contributions that can qualify for tax relief is limited to the greater of £3,600 and total UK relevant earnings, subject to scheme rules.

## Pensions auto-enrolment

In order to encourage more people to save for their retirement, the government has introduced compulsory workplace pensions for eligible workers. Under auto-enrolment, all employers must automatically enrol all eligible workers into a qualifying pension scheme. From April 2019 there is generally a minimum overall contribution rate of 8% of each employee's qualifying earnings,

of which at least 3% must come from the employer. The balance is made up of employees' contributions and associated tax relief.

## Personal pension schemes

Relying on the State Pension will not be adequate for a comfortable retirement, so if you are not in a good employer scheme, you are advised to make your own arrangements.

To qualify for income tax relief, investments in personal pensions are limited to the greater of £3,600 and the amount of your UK relevant earnings, but subject also to the annual allowance. The annual allowance is £40,000, but this is tapered for individuals who have both threshold income (net income plus any reductions in salary for salary sacrifice or flexible remuneration schemes) over £200,000 and adjusted annual income (their income and employer's pension contributions) over £240,000. For every £2 of adjusted income over £240,000, an individual's annual allowance will be reduced by £1, down to a minimum of £4,000.

Where pension savings in any of the last three years' pension input periods (PIPs) were less than the annual allowance, the 'unused relief' is brought forward, but you must have been a pension scheme member during a tax year to bring forward unused relief from that year. The unused relief for any particular year must be used within three years.

### Case Study

Dave has not made any contribution into his pension policy so far in 2020/21.

Dave has unused annual allowances of £30,000 from 2017/18, £5,000 from 2018/19 and £20,000 from 2019/20 (total £55,000). Dave's income is less than £200,000.

Dave's maximum pension investment is therefore set at £95,000 (£40,000 plus £55,000) for his 2020/21 PIP. He needs to make a pension contribution of £70,000 (current year allowance £40,000 and £30,000 unused relief from 2017/18) in order to avoid the loss of the relief brought forward from 2017/18.

If contributions are paid in excess of the annual allowance, a charge – the annual allowance charge – is payable. The effect of the annual allowance charge is to claw back all tax relief on premiums in excess of the maximum. Where the charge exceeds £2,000, arrangements can be made for the charge to be paid by the pension trustees and recovered by adjustment to policy benefits.

## Tax relief on personal pensions

Premiums on personal pension policies are payable net of basic rate tax relief at source, with any appropriate higher or additional rate relief usually being claimed via the PAYE code or self assessment tax return.





### Case Study

Penny will earn £60,000 in 2020/21. She will invest £12,500 into her personal pension policy. She is entitled to the basic personal allowance and has no other income.

Penny will pay her pension provider a premium, net of basic rate tax relief of £10,000. She is also entitled to higher rate tax relief on the gross premium, amounting to £2,500.

As Penny is an employee, we can ask HMRC to give the relief through her PAYE code. Otherwise, we would claim in Penny's 2021 Tax Return. Thus the net cost to Penny of a £12,500 contribution to her pension policy is just £7,500.

Scotland has income tax rates which are different from those that apply in the rest of the UK. Pension payments by Scottish taxpayers paying at the starter rate of 19% will be treated in the same way as 20% taxpayers in the rest of the UK. Scottish taxpayers who pay tax at 21%, 41% or 46% claim the difference between these rates and the basic rate of 20%. Contact us for specific advice.

## The lifetime allowance

Where total pension savings exceed the £1,073,100 lifetime allowance at retirement (and fixed, primary or enhanced protection is not available), a tax charge arises:

| Tax charge<br>(excess paid as annuity)         | Tax charge<br>(excess paid as lump sum) |
|------------------------------------------------|-----------------------------------------|
| 25% on excess value, then up to 45% on annuity | 55% on excess value                     |

The lifetime allowance will increase each year in line with CPI.

## Accessing your personal pension fund

Taxpayers have the option of taking a tax-free lump sum of 25% of the fund value and purchasing an annuity with the remaining fund, or opting for income drawdown which offers further flexibility in how the fund is used.

An annuity is taxable income in the year of receipt. Similarly any monies received from the income drawdown fund are taxable income in the year of receipt.

Taxpayers have total freedom to access a pension fund from the age of 55. Access to the fund may be achieved in one of two ways:

- allocation of a pension fund (or part of a pension fund) into a 'flexi-access drawdown account' from which any amount can be taken, over whatever period the person decides
- taking a single or series of lump sums from a pension fund (known as an 'uncrystallised funds pension lump sum').

When an allocation of funds into a flexi-access account is made the member typically will have the opportunity of taking a tax-free lump sum from the fund.

The person will then decide how much or how little to take from the flexi-access account. Any amounts that are taken will count as taxable income in the year of receipt.

Access to some or all of a pension fund without first allocating to a flexi-access account can be achieved by taking an uncrystallised funds pension lump sum. The tax effect will be:

- 25% is tax-free
- the remainder is taxable as income.

## Money Purchase Annual Allowance

The government is alive to the possibility of people taking advantage of the flexibilities by 'recycling' their earned income into pensions and then immediately taking out amounts from their pension funds. The Money Purchase Annual Allowance (MPAA) sets the maximum amount of tax-efficient contributions an individual can make in certain scenarios. The allowance is set at £4,000 per annum, with no carry forward of the allowance to a later year if not used in the year.

The main scenarios in which the reduced annual allowance is triggered are if:

- any income is taken from a flexi-access drawdown account; or
- an uncrystallised funds pension lump sum is received.

However, just taking a tax-free lump sum when funds are transferred into a flexi-access account will not trigger the MPAA rule.

### Your next steps: contact us to discuss...

- Calculating how much you need to save to ensure you enjoy a comfortable retirement
- Tax-advantaged saving for your pension
- Saving in parallel to provide more readily accessible funds
- Saving in employer and personal pension schemes
- Using your business to help fund your retirement



## Savings and investment strategies

From pension savings to alternative savings, investment strategies are often made up of a range of different elements. Early planning is essential: this is a continuous process, and it is important to monitor your financial plans regularly, to ensure that they remain up to date and that you stay on course to achieve your financial goals.

### A realistic approach

Being realistic about your objectives is crucial when putting together a financial plan. This requires a balancing act between your 'head' (financially prudent strategies) and your 'heart' (emotionally acceptable thresholds). We can help you bridge the gap between what you can expect financially and what you dream of achieving. One approach is to set a number of short, medium and long-term goals and prioritise them within each category, in order to meet your objectives.

### Setting your financial goals

Some typical financial goals might include:

- being able to retire comfortably
- having sufficient funds and insurance cover in the event of serious illness or loss
- accumulating a sizeable estate to pass on to your heirs
- increasing the assets that will pass to your heirs by using various estate planning techniques, perhaps including a lifetime gifts strategy
- tying in charitable aims with your own family goals
- raising sufficient wealth to buy a business, holiday home, etc
- developing an investment plan that may provide a hedge against market fluctuations and inflation
- minimising taxes on income and capital.

### Your investment strategy

Records show that in the long-term, share investments outperform bank and building society accounts in terms of the total returns they generate. However, it is important to remember that shares can go down in value as well as up, and dividend income can fluctuate. Choosing the wrong investment may mean you get back less than you invested. Considering the most important factors that apply to you is a vital part of your investment strategy.

### Tax-efficient savings and investments

If at all possible, paying tax on your savings and investment earnings is to be avoided. A number of investment products exist that produce tax-free income.

#### National Savings

Premium Bonds offer a modest 'interest equivalent', but there is a chance of winning a tax-free million! The Premium Bonds investment limit is £50,000.

### Stocks and shares

Investment in stocks and shares has historically provided the best chance of long-term growth. Investment in open-ended investment companies (OEICs), investment trusts and exchange traded funds are designed to spread the risk, compared to holding a small number of shares directly. Capital gains and dividends are charged to tax. A Dividend Tax Allowance of £2,000 a year is available. The rates of tax on dividend income above the allowance are 7.5% for basic rate taxpayers, 32.5% for higher rate taxpayers and 38.1% for additional rate taxpayers.

### Bank and building society accounts

Bank and building society accounts do offer:

- a higher degree of certainty over investment return (spread large amounts over several banks, though); and
- (usually) ready access to your funds.

The Personal Savings Allowance (PSA) removes some income from income tax – up to £1,000 of a basic rate taxpayer's savings income and up to £500 of a higher rate taxpayer's income. No PSA is available to additional rate taxpayers. Additionally, some taxpayers with amounts of non-savings income no higher than the personal allowance also benefit from the £5,000 starting rate for savings band, with a rate of tax of 0%.

### Investing in property

Property is typically considered a long-term investment. Buy-to-let mortgages will generally be available to fund as much as 75% of the cost or property valuation, whichever is the lower. Those investing in property seek a net return from rent which is greater than the interest on the loan, while the risk of the investment is weighed against the prospect of capital growth.

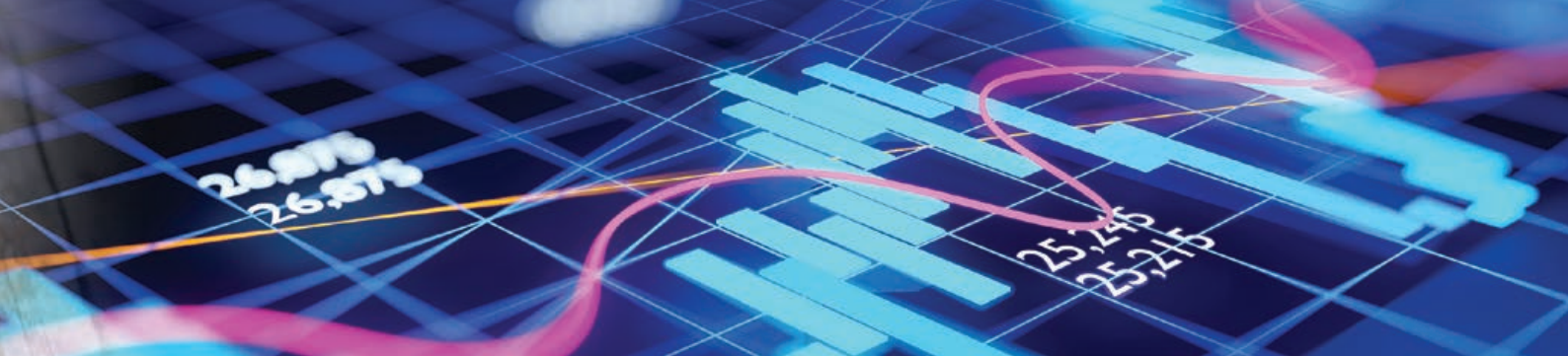
Landlords are no longer able to deduct their finance costs from their residential property income, they instead receive a basic rate reduction from their income tax liability. The restriction to finance costs does not apply to landlords of furnished holiday lettings.

### Individual Savings Accounts (ISAs)

The overall annual subscription limit for ISAs is £20,000 for 2020/21. Individuals can invest in a combination of ISAs up to this limit, and may involve a single plan manager or separate managers, handling separate elements. However, a saver may only pay into one of each type of ISA each year.

16 and 17-year-olds can invest in an adult Cash ISA. A Junior ISA is available to all UK resident children under 18 as a Cash or Stocks and Shares product or both. Total annual contributions are capped at £9,000. Junior ISAs are owned by the child but investments are locked in until adulthood.

All investments held in ISAs are free of capital gains tax (CGT) and there is no minimum investment period for funds. However,



some plan managers offer incentives, e.g. better rates of interest, in return for a commitment to restrictions, such as a 90-day notice period for withdrawals – therefore, it is worth shopping around.

### Lifetime ISA

Any adult under 40 is able to open a Lifetime ISA. They can save up to £4,000 each year, and will receive a 25% bonus from the government for every pound they put in, up to the age of 50. Funds can be used to save for a first home worth up to £450,000, or for retirement. If the fund is not used for a first home purchase, the funds cannot be withdrawn without a penalty unless an individual is aged 60 or over, or terminally ill, with less than 12 months to live. A withdrawal charge is made if cash or assets for any other reason. The charge is normally 25% but has been reduced for withdrawals up to 6 April 2021 for individuals who need to access their funds due to the COVID-19 outbreak.

### Help to Buy ISA

Help to Buy ISA accounts were withdrawn for new savers on 30 November 2019. Those individuals that already have an account can keep saving until 30 November 2029, when accounts will close to additional contributions. Help to Buy offers a tax-free savings account for first-time buyers saving for a home. Savings are limited to a monthly maximum of £200.

The government provides a 25% bonus on the total amount saved, including interest, capped at a maximum of £3,000 on savings of £12,000, which is tax-free. Interest received on the account will be tax-free. The bonus can be put towards a first home located in the UK with a purchase value of £450,000 or less in London and £250,000 or less in the rest of the UK.

An individual must claim their bonus by 1 December 2030.

### The Innovative Finance ISA

This ISA is designed to encourage peer-to-peer lending. It can be offered by qualifying peer-to-peer lending platforms. Loan repayments, interest and gains from peer-to-peer loans are eligible to be held within an Innovative Finance ISA, tax-free. Returns have the potential to be significantly greater than on Cash ISAs, but they will carry a greater degree of risk.

## Some alternative investment schemes

Although generally higher risk, the tax breaks aimed at encouraging new risk capital mean that the following schemes could have a place in your investment strategy.

### Enterprise Investment Scheme (EIS)

Subject to various conditions, EIS investments attract income tax relief, limited to a maximum 30% relief on £1 million of investment per annum. The £1 million annual limit is increased to £2 million for individuals making EIS investments in knowledge-intensive companies (KICs), provided that anything above £1 million is invested in one or more KICs. A deferral relief is available to rollover chargeable gains where all or part of the gain is invested in EIS shares (within the required period).

Although increases in the value of shares acquired under the EIS are not chargeable to CGT (as long as the shares are held for the required period), relief against chargeable gains or income is available for losses.

### Venture Capital Trusts (VCTs)

These bodies invest in the shares of unquoted trading companies which would qualify for receipt of investment under the EIS. An investor in the shares of a VCT will be exempt from tax on dividends and on any capital gain arising from disposal of the shares in the VCT. Income tax relief of 30% is available on subscriptions for VCT shares, up to £200,000 per tax year, as long as the shares are held for at least five years.

### Seed Enterprise Investment Scheme (SEIS)

This provides income tax relief of 50% for individuals who invest in shares in qualifying companies, with an annual investment limit for individuals of £100,000 and a cumulative investment limit for companies of £150,000, and provides a 50% CGT relief on gains realised on disposal of an asset and invested through the SEIS.

A gain on the disposal of SEIS shares will be exempt from CGT as long as the shares obtained income tax relief, which has not been withdrawn, and are held for at least three years.

### Your next steps: contact us to discuss...

- Creating a savings and investment strategy
- Establishing and achieving your savings goals
- Tax on income and gains
- Investing for your retirement
- Tax-free investments
- The tax consequences of different investments



# Tax-efficient estate planning

## Keeping inheritance tax to a minimum

An estate plan that minimises your tax liability is essential. The more you have, the less you should leave to chance. If your estate is large it could be subject to inheritance tax (IHT), which is currently payable where a person's taxable estate is in excess of £325,000. However, even if it is small, planning and a well-drafted Will can help to ensure that your assets will be distributed in accordance with your wishes. We can work with you to ensure that more of your wealth passes to the people you love, through planned lifetime gifts and a tax-efficient Will.

| Estimate the tax on your estate                                                                                                                                                                                                                                                                                                                                                                            | £         |
|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------|
| <b>Value of:</b> Your home (and contents)                                                                                                                                                                                                                                                                                                                                                                  |           |
| Your business <sup>1</sup>                                                                                                                                                                                                                                                                                                                                                                                 |           |
| Bank/savings account(s)                                                                                                                                                                                                                                                                                                                                                                                    |           |
| Stocks and shares                                                                                                                                                                                                                                                                                                                                                                                          |           |
| Insurance policies                                                                                                                                                                                                                                                                                                                                                                                         |           |
| Other assets                                                                                                                                                                                                                                                                                                                                                                                               |           |
| <b>Total assets</b>                                                                                                                                                                                                                                                                                                                                                                                        |           |
| Deduct: Mortgage, loans and other debts                                                                                                                                                                                                                                                                                                                                                                    |           |
| <b>Net value of assets</b>                                                                                                                                                                                                                                                                                                                                                                                 |           |
| Add: Gifts in last seven years <sup>2</sup>                                                                                                                                                                                                                                                                                                                                                                |           |
| Less: Legacies to charities                                                                                                                                                                                                                                                                                                                                                                                |           |
| Deduct: Nil-rate band                                                                                                                                                                                                                                                                                                                                                                                      | – 325,000 |
| Deduct: Residence nil-rate band                                                                                                                                                                                                                                                                                                                                                                            |           |
| <b>Taxable estate £</b>                                                                                                                                                                                                                                                                                                                                                                                    |           |
| Tax at 40%/36% <sup>3</sup> is £                                                                                                                                                                                                                                                                                                                                                                           |           |
| <p>1. If you are not sure what your business is worth, we can help you value it. Most business assets currently qualify for IHT reliefs</p> <p>2. Exclude exempt gifts (e.g. spouse, civil partner, annual exemption)</p> <p>3. IHT rate may be 36% if sufficient legacies left to charities (see later). The tax on gifts between three and seven years before death may benefit from a taper relief.</p> |           |

## Making a Will

If you own such possessions as a home, car, investments, business interests, retirement savings or collectables, then you require a Will. A Will allows you to specify who will distribute your property after your death, and the people who will benefit. Many individuals either do not appreciate its importance, or do not see it as a priority. However, if you have no Will, your property could be distributed according to the intestacy laws.

You should start by considering some key questions:

**Who?** Who do you want to benefit from your wealth? What do you need to provide for your spouse? Should your children share equally in your estate – does one or more have special needs? Do you wish to include grandchildren? Would you like to give to charity?

**What?** Should your business pass to all of your children, or only to those who have become involved in the business, and should you compensate the others with assets of comparable value? Consider the implications of multiple ownership.

**When?** Consider the age and maturity of your beneficiaries. Should assets be placed into a trust restricting access to income and/or capital? Or should gifts wait until your death?

## Making use of lifetime exemptions

You should ensure that you make the best use of the available lifetime IHT exemptions, which include:

- the £3,000 annual exemption
- normal expenditure gifts out of after-tax income
- gifts in consideration of marriage (up to specified limits)
- gifts you make of up to £250 per person per annum
- gifts to charities
- gifts between spouses, facilitating equalisation of estates (special rules apply if one spouse is non-UK domiciled).

## Spouses and civil partners

On the first death, it is often the case that the bulk of the deceased spouse's (or civil partner's) assets pass to the survivor. The percentage of the £325,000 nil-rate band not used on the first death is added to the nil-rate band for the second death.

| Case Study                                                                                                                                                                                                 |          |
|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------|
| Rob and Sarah were married. Rob died in May 2008, leaving £50,000 to his more distant family but the bulk of his estate to Sarah. If Sarah dies in 2020/21 her estate will qualify for a nil-rate band of: |          |
| Nil-rate band on Rob's death                                                                                                                                                                               | £312,000 |
| Used on Rob's death                                                                                                                                                                                        | £50,000  |
| Unused band                                                                                                                                                                                                | £262,000 |
| Unused percentage                                                                                                                                                                                          | 83.97%   |
| Nil-rate band at the time of Sarah's death                                                                                                                                                                 | £325,000 |
| Entitlement                                                                                                                                                                                                | 183.97%  |
| Nil-rate band for Sarah's estate                                                                                                                                                                           | £597,902 |

If you die within seven years of making substantial lifetime gifts, they will be added back into your estate and may result in a significant IHT liability. You can take out a life assurance policy to cover this tax risk if you wish. However, you can make



substantial gifts out of your taxable estate into trust now, and as a trustee retain control over the assets (this may well be subject to CGT or IHT charges).

### The IHT main residence nil-rate band

The 'residence nil-rate band' (RNRB) applies where a residence is passed on death to direct descendants such as a child or a grandchild. This is set at £175,000 for 2020/21 (rising in line with CPI inflation from 2021/22). The additional band can only be used in respect of one residential property which has, at some point, been a residence of the deceased.

Any unused nil-rate band may be transferred to a surviving spouse or civil partner. It will also be available where a person downsizes or ceases to own a home on or after 8 July 2015 and assets of an equivalent value, up to the value of the additional nil-rate band, are passed to direct descendants on death.

There will be a tapered withdrawal of the additional nil-rate band for estates with a net value (after deducting any liabilities but before reliefs and exemptions) of more than £2 million. This will be at a withdrawal rate of £1 for every £2 over this threshold.

### Gifting strategies

#### Business assets

Under current rules, there will be no CGT and perhaps little or no IHT to pay if you retain business property until your death. This is fine, as long as you wish to continue to hold your business interests until death, and recognise that the rules may change.

Alternatively, you may wish to hand your business over to the next generation. A gift of business property today will probably qualify for up to 100% IHT relief, and any capital gain can more than likely be held over to the new owner, so there will be no current CGT liability. If business or agricultural property is included in the estate, it may be appropriate to leave it to someone other than your spouse; otherwise the benefit of the special reliefs may be lost.

#### Appreciating assets

Gifts do not have to be in cash. You could save more IHT and/or CGT by gifting assets with the potential for growth in value. Gift while the asset has a lower value, and the appreciation then accrues outside your estate.

#### Gifting income

Another way to build up capital outside your own estate is to make regular gifts out of income, perhaps by way of premiums on an insurance policy written in trust for your heirs. Regular payments of this type will be exempt from IHT, but please note that your executors may need to be able to prove the payments were (a) regular and (b) out of surplus income, so you will need to keep some records to support the claim.

### Charitable gifts

Gifts to charity can take many forms and result in significant tax reliefs for both lifetime giving and on death. Perhaps you are already making regular donations to one or more charities, coupled with one-off donations in response to natural disasters or televised appeals. Here we look at some of the ways you can increase the value of your gift to your chosen charities through the various forms of tax relief available.

#### Gift Aid

Donations made under Gift Aid are made net of tax. What that means is that for every £1 you donate, the charity can recover 25p from HMRC. Furthermore, if you are paying tax at the 40% higher (or 45% additional) rate, you can claim tax relief equal to 25p (31p). Consequently, at a net cost to you of only 75p (69p additional rate), the charity receives £1.25.

Scottish taxpayers now pay different income tax rates than taxpayers in the rest of the UK. Donations by Scottish taxpayers paying at the starter rate of 19% will be treated in the same way as 20% taxpayers in the rest of the UK. Donors may need to check that they have paid enough tax to cover the Gift Aid claim, however. Scottish taxpayers using Gift Aid who pay tax at 21%, 41% or 46% claim the difference between this and the basic rate.

A payment made in the current tax year can, subject to certain deadlines, be treated for tax purposes as if it had been made in 2019/20. This may not appear important to many people, but if you paid additional rate tax in 2019/20 and do not expect to do so this year, a claim will allow you to obtain relief at last year's rate. (Note: the carry-back election must be made before we file your 2020 Tax Return – another example of the importance of keeping us informed!) You must pay enough tax in the relevant year to cover the tax the charity will recover (that is, 25p for every £1 you gift).

#### Payroll giving

You can make regular donations to charity through your payroll, if your employer agrees to operate the scheme. It operates by deducting an amount from your gross pay equal to the net cost to you of the monthly net donation you want to make.

#### Gifts of assets

Not all donations need to be monetary. You can make a gift of assets, and if the assets fall within the approved categories the gift can obtain a triple tax relief. Any gain which would accrue on the gift is exempt from CGT and the asset is removed from your estate for IHT. In addition the value of the asset is deductible against your income for the purposes of calculating your income tax liability.



## Charitable legacies on death

A reduced rate of IHT applies where 10% or more of a deceased's net estate (after deducting IHT exemptions, reliefs and the nil-rate band) is left to charity. In those cases the 40% rate will be reduced to 36%.

## Estate planning for single people

Single people might not have given much thought to estate planning, but you should make a Will to set out your preferred funeral arrangements, how you want your estate to devolve on your death, and who will have responsibility for it.

Your estate might pass to your parents or your siblings, but would you perhaps prefer to leave your wealth to your nieces and nephews – with the bonus of potential IHT savings through 'generation skipping'? A Will is also vital for anyone who, although legally 'single', has a partner who they wish to benefit from the estate on their death.

## Second marriages

Parents face a different set of challenges in second (or subsequent) marriages. If both partners are wealthy, you might want to direct more of your own wealth to children of your first marriage. If your partner is not wealthy, you might wish to protect him or her by either a direct bequest or a life interest trust (allowing your assets to devolve on their death according to your wishes). Should younger children receive a bigger share than grown up children, already making their own way in the world, and should your partner's children from the previous marriage benefit equally with your own?

If you are concerned about your former spouse gaining control of your wealth, consider creating a trust to ensure maximum flexibility in the hands of people you choose. You also need to plan to ensure that your partner is properly provided for. Look at your Will, pension provisions, life insurance and joint tenancies.

## Providing for the grandchildren

Your children may be grown up and financially secure. If your assets pass to them, you will be adding to their estate, and to the IHT which will be charged on their deaths. Instead, it might be worth considering leaving something to your grandchildren.

## Updating your estate plan

Estate plans can quickly become out of date. Revisions could be due if any of the following events have occurred since you last updated your estate plan:

- the birth of a child or grandchild
- the death of your spouse, another beneficiary, your executor or your children's guardian
- marriages or divorces in the family
- a substantial increase or decrease in the value of your estate
- the formation, purchase or sale of a business
- retirement
- changes in tax law.

## Reviewing your Will

A Will can be a powerful planning tool, which enables you to:

- protect your family by making provisions to meet their future financial needs
- minimise taxes that might reduce the size of your estate
- name an experienced executor who is capable of ensuring that your wishes are carried out
- name a trusted guardian for your children
- provide for any special needs of specific family members
- include gifts to charity
- establish trusts to manage the deferral of the inheritance of any beneficiaries
- secure the peace of mind of knowing that your family and other heirs will receive according to your express wishes.

Having taken the time to make a Will and prepare an estate plan, you must review them regularly to reflect changes in family and financial circumstances, as well as changes in tax law. Wills can also be rewritten by others within the two years after your death, in the event that some changes are agreed by all concerned to be appropriate.

With regular reviews we can help you to ensure that you make the most of estate planning tax breaks.

### Your next steps: contact us to discuss...

- Inheritance tax planning and writing a Will
- Gifts to charity and minimising tax on gifts and inheritances
- Disposition of your assets on death
- Using trusts in lifetime and estate tax planning
- Your choice of an executor
- Inheritance tax reduction planning and life assurance to cover any liabilities
- Naming a guardian for your children
- Lifetime gifts of assets, including business interests
- How your business interests should devolve if you die or become incapacitated





## Key planning points

Use this page to make a note of any key points arising from this guide, and any action you may wish to consider, and then contact us for further advice and assistance.

[illegible]

# Tax Calendar

## May 2020

| M  | Tu | W  | Th | F  | Sa | Su |
|----|----|----|----|----|----|----|
|    |    |    |    | 1  | 2  | 3  |
| 4  | 5  | 6  | 7  | 8  | 9  | 10 |
| 11 | 12 | 13 | 14 | 15 | 16 | 17 |
| 18 | 19 | 20 | 21 | 22 | 23 | 24 |
| 25 | 26 | 27 | 28 | 29 | 30 | 31 |

## June 2020

| M  | Tu | W  | Th | F  | Sa | Su |
|----|----|----|----|----|----|----|
| 1  | 2  | 3  | 4  | 5  | 6  | 7  |
| 8  | 9  | 10 | 11 | 12 | 13 | 14 |
| 15 | 16 | 17 | 18 | 19 | 20 | 21 |
| 22 | 23 | 24 | 25 | 26 | 27 | 28 |
| 29 | 30 |    |    |    |    |    |

## July 2020

| M  | Tu | W  | Th | F  | Sa | Su |
|----|----|----|----|----|----|----|
|    |    | 1  | 2  | 3  | 4  | 5  |
| 6  | 7  | 8  | 9  | 10 | 11 | 12 |
| 13 | 14 | 15 | 16 | 17 | 18 | 19 |
| 20 | 21 | 22 | 23 | 24 | 25 | 26 |
| 27 | 28 | 29 | 30 | 31 |    |    |

## May 2020

- Deadline for submitting P46(Car) for employees whose car/fuel benefits changed during the quarter to 5 April 2020.
- PAYE, Student loan and CIS deductions are due for the month to 5 May 2020.
- Deadline for forms P60 for 2019/20 to be issued to employees.

## June 2020

- New Advisory Fuel Rates (AFR) for company car users apply from today.
- PAYE, Student loan and CIS deductions are due for the month to 5 June 2020.
- End of CT61 quarterly period.

## July 2020

- Deadline for reaching a PAYE Settlement Agreement for 2019/20.
- Deadline for forms P11D and P11D(b) for 2019/20 to be submitted to HMRC and copies to be issued to employees concerned.  
Deadline for employers to report share incentives for 2019/20.
- Due date for income tax for the CT61 period to 30 June 2020.
- Class 1A NICs due for 2019/20.
- PAYE, Student loan and CIS deductions due for the month to 5 July 2020.  
PAYE quarterly payments are due for small employers for the pay periods 6 April 2020 to 5 July 2020.
- Second payment on account 2019/20 due.

## August 2020

- Deadline for submitting P46(Car) for employees whose car/fuel benefits changed during the quarter to 5 July 2020.

## August 2020

| M  | Tu | W  | Th | F  | Sa | Su |
|----|----|----|----|----|----|----|
| 31 |    |    |    |    | 1  | 2  |
| 3  | 4  | 5  | 6  | 7  | 8  | 9  |
| 10 | 11 | 12 | 13 | 14 | 15 | 16 |
| 17 | 18 | 19 | 20 | 21 | 22 | 23 |
| 24 | 25 | 26 | 27 | 28 | 29 | 30 |

## September 2020

| M  | Tu | W  | Th | F  | Sa | Su |
|----|----|----|----|----|----|----|
|    | 1  | 2  | 3  | 4  | 5  | 6  |
| 7  | 8  | 9  | 10 | 11 | 12 | 13 |
| 14 | 15 | 16 | 17 | 18 | 19 | 20 |
| 21 | 22 | 23 | 24 | 25 | 26 | 27 |
| 28 | 29 | 30 |    |    |    |    |

## October 2020

| M  | Tu | W  | Th | F  | Sa | Su |
|----|----|----|----|----|----|----|
|    |    |    | 1  | 2  | 3  | 4  |
| 5  | 6  | 7  | 8  | 9  | 10 | 11 |
| 12 | 13 | 14 | 15 | 16 | 17 | 18 |
| 19 | 20 | 21 | 22 | 23 | 24 | 25 |
| 26 | 27 | 28 | 29 | 30 | 31 |    |

- PAYE, Student loan and CIS deductions are due for the month to 5 August 2020.
- ## September 2020
- New Advisory Fuel Rates (AFR) for company car users apply from today.
  - PAYE, Student loan and CIS deductions are due for the month to 5 September 2020.
  - End of CT61 quarterly period.

## October 2020

- Due date for payment of Corporation Tax for period ended 31 December 2019.
- Deadline for notifying HMRC of new sources of taxable income or gains or liability to the High Income Child Benefit Charge for 2019/20 if no tax return has been issued.
- Due date for income tax for the CT61 quarter to 30 September 2020.
- Tax and NICs due under a 2019/20 PAYE Settlement Agreement.  
PAYE, Student loan and CIS deductions are due for the month to 5 October 2020.  
PAYE quarterly payments are due for small employers for the pay periods 6 July 2020 to 5 October 2020.
- Deadline for submitting 'paper' 2019/20 self assessment returns.

## November 2020

- Deadline for submitting P46(Car) for employees whose car/fuel benefits changed during the quarter to 5 October 2020.
- PAYE, Student loan and CIS deductions are due for the month to 5 November 2020.

## December 2020

- New Advisory Fuel Rates (AFR) for company car users apply from today.

## November 2020

| M  | Tu | W  | Th | F  | Sa | Su |
|----|----|----|----|----|----|----|
| 30 |    |    |    |    |    | 1  |
| 2  | 3  | 4  | 5  | 6  | 7  | 8  |
| 9  | 10 | 11 | 12 | 13 | 14 | 15 |
| 16 | 17 | 18 | 19 | 20 | 21 | 22 |
| 23 | 24 | 25 | 26 | 27 | 28 | 29 |

## December 2020

| M  | Tu | W  | Th | F  | Sa | Su |
|----|----|----|----|----|----|----|
|    | 1  | 2  | 3  | 4  | 5  | 6  |
| 7  | 8  | 9  | 10 | 11 | 12 | 13 |
| 14 | 15 | 16 | 17 | 18 | 19 | 20 |
| 21 | 22 | 23 | 24 | 25 | 26 | 27 |
| 28 | 29 | 30 | 31 |    |    |    |

## January 2021

| M  | Tu | W  | Th | F  | Sa | Su |
|----|----|----|----|----|----|----|
|    |    |    |    | 1  | 2  | 3  |
| 4  | 5  | 6  | 7  | 8  | 9  | 10 |
| 11 | 12 | 13 | 14 | 15 | 16 | 17 |
| 18 | 19 | 20 | 21 | 22 | 23 | 24 |
| 25 | 26 | 27 | 28 | 29 | 30 | 31 |

- PAYE, Student loan and CIS deductions are due for the month to 5 December 2020.
- Online filing deadline for submitting 2019/20 self assessment return if you require HMRC to collect any underpaid tax by making an adjustment to your 2021/22 tax code.
- End of CT61 quarterly period.  
Filing date for Company Tax Return Form CT600 for period ended 31 December 2019.

## January 2021

- Due date for payment of corporation tax for period ended 31 March 2020.
- Due date for income tax for the CT61 quarter to 31 December 2020.
- PAYE, Student loan and CIS deductions are due for the month to 5 January 2021.  
PAYE quarterly payments are due for small employers for the pay periods 6 October 2020 to 5 January 2021.
- Deadline for submitting your 2019/20 self assessment return (£100 automatic penalty if your return is late) and the balance of your 2019/20 liability together with the first payment on account for 2020/21 are also due.  
Capital gains tax payment for 2019/20.  
Balancing payment – 2019/20 income tax and Class 4 NICs. Class 2 NICs also due.

## February 2021

- Deadline for submitting P46(Car) for employees whose car/fuel benefits changed during the quarter to 5 January 2021.
- PAYE, Student loan and CIS deductions are due for the month to 5 February 2021.

## February 2021

| M  | Tu | W  | Th | F  | Sa | Su |
|----|----|----|----|----|----|----|
| 1  | 2  | 3  | 4  | 5  | 6  | 7  |
| 8  | 9  | 10 | 11 | 12 | 13 | 14 |
| 15 | 16 | 17 | 18 | 19 | 20 | 21 |
| 22 | 23 | 24 | 25 | 26 | 27 | 28 |
|    |    |    |    |    |    |    |

## March 2021

| M  | Tu | W  | Th | F  | Sa | Su |
|----|----|----|----|----|----|----|
| 1  | 2  | 3  | 4  | 5  | 6  | 7  |
| 8  | 9  | 10 | 11 | 12 | 13 | 14 |
| 15 | 16 | 17 | 18 | 19 | 20 | 21 |
| 22 | 23 | 24 | 25 | 26 | 27 | 28 |
| 29 | 30 | 31 |    |    |    |    |

## April 2021

| M  | Tu | W  | Th | F  | Sa | Su |
|----|----|----|----|----|----|----|
|    |    |    | 1  | 2  | 3  | 4  |
| 5  | 6  | 7  | 8  | 9  | 10 | 11 |
| 12 | 13 | 14 | 15 | 16 | 17 | 18 |
| 19 | 20 | 21 | 22 | 23 | 24 | 25 |
| 26 | 27 | 28 | 29 | 30 |    |    |

## March 2021

- New Advisory Fuel Rates (AFR) for company car users apply from today.
- 5% late payment penalty on any 2019/20 outstanding tax which was due on 31 January 2021 and still remains unpaid.
- PAYE, Student loan and CIS deductions are due for the month to 5 March 2021.
- End of corporation tax financial year.  
End of CT61 quarterly period.  
Filing date for Company Tax Return Form CT600 for period ended 31 March 2020.  
Last minute planning for tax year 2020/21 – please contact us for advice.

## April 2021

- Last day of 2020/21 tax year.  
Deadline for 2020/21 ISA investments.  
Last day to make disposals using the 2020/21 CGT exemption.
- Due date for income tax for the CT61 period to 31 March 2021.
- Automatic interest is charged where PAYE tax, Student loan deductions, Class 1 NICs or CIS deductions for 2020/21 are not paid by today. Penalties may also apply if any payments have been made late throughout the tax year.  
PAYE quarterly payments are due for small employers for the pay periods 6 January 2021 to 5 April 2021.  
PAYE, Student loan and CIS deductions are due for the month to 5 April 2021.  
Deadline for employers' final PAYE return to be submitted online for 2020/21.