VINTAGE
WEALTH MANAGEMENT

YEAR-END TAX PLANNING – 22 TOP TIPS

With the tax year end fast approaching, time is running out to make the most of any opportunities to protect and maximise your savings and investments. At this point in the calendar, it can be prudent to conduct a thorough review of your affairs, understand the potential benefits that are available to you, and think about putting a plan into action.

At Vintage, we support our clients in structuring their finances in the most tax-efficient way, making the most of allowable deductions and optimising financial growth. Here, we have outlined 22 top tips that are designed to help with your planning for the tax-year end while also informing your strategies for wider holistic and inter-generational wealth planning.

For further guidance with any of the areas discussed or a general tax-efficiency review with one of our experts, contact us today.

1. Explore unused ISA allowances

With ISAs offering the opportunity to save up to £20,000 tax-free (or £40,000 per couple every year, make sure you've made the most of this benefit before the tax-year end. Four different types of ISA are available, with the option for your allowance to be allocated to one or spread across multiple accounts.

2. Check your Will is up to date

Creating a valid Will is essential to make sure your dependents are protected should the worst happen to you and/or your partner. Without a Will your estate will be divided according to intestacy laws with potentially unfavourable Inheritance Tax consequences. Once the spousal exemption has been utilised (where applicable), Inheritance Tax of 40% will be due on the remainder of the estate which is in excess of £325,000 (up to £500,000 if the Residence Nil-Rate Band is available) If you already have a Will in place, review the details for accuracy and tax efficiency on a regular basis. This is especially important if you have recently experienced significant life changes, such as getting divorced or remarried.

3. Save for your children

It's never too early to start saving for your children and modelling good financial habits. You can save up to £9,000 a year into a Junior ISA. There is a choice of cash or stocks-and-shares ISAs, with the latter offering exposure to the stock market and the potential for investment growth over a longer period. ISAs offer investment growth in a tax-free environment with no income or capital gains tax payable. Your children can access the funds tax-free from age 18 onwards.

4. Review your household energy efficiency

You may be able to claim tax relief for additional household costs, including gas, electricity and metered water, if you have to work at home on a regular basis, potentially because of COVID-19. As the UK struggles with the energy bills crisis, most providers are offering assistance with minimising costs. Take advantage of the services available, such as free home visits to install smart meters, and check that your household is consuming energy in the most cost-efficient way.

5. Make the most of personal allowances

Regardless of whether you and your spouse/civil partner pay the same tax rates or one pays a higher rate of tax, it's essential to view your finances on a collective basis to identify opportunities for restructuring and making the most of the allowances available. Married couples and registered civil partners are permitted to share 10% of their personal allowance between them. The unused allowance of one partner can be used by the other, meaning an overall combined tax saving. The amount you can transfer is £1,260 for 2021/22, but this transfer is not permitted if the recipient partner pays tax at a rate higher than the basic rate of 20%. If you own a buy-to-let portfolio, it is most tax-efficient for the lower earner and basic-rate taxpayer to be the one that receives taxable rents from any property you let out. it is most tax-efficient for the lower earner and basic-rate taxpayer to be the one that receives taxable rents from any property you let out.

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6. Take dividends

If you are involved in a business or hold a relevant investment portfolio, make the most of your Dividend Allowances. Investors and shareholders are both eligible to receive £2,000 of tax-free dividend income. Should you surpass the dividend allowance, tax is charged at 7.5% for basic-rate taxpayers, 32.5% for higher-rate taxpayers, and 38.1% for additional-rate taxpayers.

7. Protect your pension savings

If you think your pension fund is likely to exceed the current Lifetime Annual Allowance of £1,073,100, arrange a pension check to see if you can protect your savings. Otherwise, you risk facing hefty penalty tax charges when you take pension benefits.

8. Use your annual tax-free allowances for gifting purposes

You can give away a total of £3,000 worth of gifts each tax year without them being added to the value of your estate. This is known as your 'annual exemption'. You can give gifts or money up to £3,000 to one person or split the £3,000 between several people.. As long as you establish a pattern of gifts that can be shown to be covered by your net income, without reducing either your capital assets or your normal standard of living, these gifts will be free of Inheritance Tax. You can carry forward any unused annual exemption, but only for one tax year.

9. Review your pension scheme

Increasing the amount of your pension contributions can enable you to reduce your tax liability. Pension savings grow free from Income and Capital Gains Tax (CGT), and you can usually contribute up to £40,000 a year - although this may be reduced for higher earners. You may also be able to make extra contributions by bringing forward unused allowances from the previous three tax years, including both personal and employer contributions.

10. Pay pension contributions to save NICs

If you pay pension contributions out of your salary, both you and your employer have to pay National Insurance Contributions (NICs) on that salary. When your employer pays a contribution directly into your pension scheme, the employer receives tax relief for the contribution and there are no NICs to pay. You could arrange with your employer to cover the cost of the contributions by forgoing part of your salary or bonus.

11. Use your Capital Gains Tax allowance and capital losses

You only have to pay CGT on your overall gains above your tax-free allowance (called the Annual Exempt Amount), which is £12,300 for tax year 2021/22. The exemption doesn't roll over to the next tax year so be sure to make the most of it and utilise any capital losses which will be offset against the gains before the tax-exempt amount is deducted. Capital losses will be wasted if gains would otherwise be covered by your exempt amount. If you have a valuable qualifying asset ready for sale that could push you over the limit, consider postponing the sale until the 2022/23 tax year.

12. Consider equity release

Equity release can be a valuable way to unlock wealth from your home and help you and your family to fulfil key goals in retirement years, whether that's home renovations or helping your children onto the property ladder. You can unlock wealth from your home entirely tax-free, although there will be interest added to the amount that you owe. If you earn any interest on savings related to the equity that you have released, there may also be tax to pay on this so it's essential that you fully understand all the tax implications before making a decision. You can also speak with your financial adviser to gain access to the most favourable interest rates.

13. Familiarise yourself with the tax implications of moving abroad

With COVID-19 causing many of us to reassess our priorities and values, expat life may seem more tempting than ever. Non-UK residents are generally not subject to UK tax on their foreign income but it's essential to seek advice and ensure you fully understand the potential opportunities and cost implications involved with taxation when living abroad.

14. Get your marital affairs in order

Tax is an important financial consideration when it comes to dissolution of marriage as spouses/civil partners will lose the right to freely transfer assets from one to the other. As such, there is a great deal of financial risk when it comes to Capital Gains Tax liability, which often means it's wise to wait until the end of the tax year to file. If the relationship has broken down to such a point where this may not be possible, we recommend seeking urgent advice to work out the best financial route for you to take.

15. Review your Corporation Tax structure

With the main Corporation Tax rate remaining at 19% for the next tax year, now is the time to review your tax structure, include the rates in cash-flow projections, and identify opportunities for relief. For example, you can claim capital allowances if you buy assets that you use within your business, such as machinery or business vehicles.

16. Stay on top of Child Benefit

If you receive child benefits, you may be liable for charges if you are a higher earner with an adjusted net annual income in excess of £50,000. Charges are calculated at 1% of the full child benefit allowance for every £100 of income between £50,000 and £60,000. If your income is higher than £60,000, the financial benefit of the claim is lost. If both partners can keep their annual taxable income below £50,000, then charges can be avoided. It may be possible to do so by exchanging salary for employee benefits, reallocating assets or making personal pension contributions.

17. Explore using Trusts for inter-generational wealth planning

The use of a formal trust can help you protect your family's future finances and achieve long-term goals. Family trusts are also a good way to take advantage of children's tax-free personal allowances. It may be advisable from a tax perspective to appoint trustees to manage assets on your behalf.

18. Check your PAYE tax code

The correct tax code ensures you're not paying more tax than required or that you're not paying too little - for which you may be penalised. Your tax code is based on the amount of tax you should be paying and the amount you can earn before tax applies. If you have multiple employers or pension providers, you may get more than one tax code.

19. Use the IHT marriage exemption

If your son or daughter is about to marry or enter into a registered civil partnership, you and your spouse can each gift them £5,000 free of Inheritance Tax. The marriage exemption can also be combined with your £3,000 a year IHT exemption to allow you to make larger exempt gifts. You can make an IHT-free gift of £2,500 for a grandchild's wedding.

20. Consider opportunities regarding the Tapered Annual Allowance

Since 6 April 2020, those with a taxable income over £240,000 will have their annual allowance for pension contributions for that tax year restricted. This means that for every £2 of income that you make over £240,000, your annual allowance is reduced by £1 to a maximum reduction of £36,000. However, the tapered reduction doesn't apply to anyone with 'threshold income' of under £200,000, which presents an attractive tax-planning opportunity for those earning between £150,000 and £200,000.

21. Avoid the 'Personal Allowance Trap'

If your earnings are approaching £100,000, it might be advisable to take steps to avoid the 'personal allowance trap'. This situation is caused by the tapering of the personal allowance at a rate of £1 for every extra £2 you earn in excess of £100,000 and results in an effective tax rate of 60% for earnings between £100,000 and £125,140. Making additional pension contributions could restore your personal allowance and protect you against entering the 'trap', improving your overall tax position while topping up your retirement fund.

22. Review your investments for tax efficiency

There are a range of attractive tax-efficient investments available where you may be able to access significant Income Tax savings on the investment made as well as tax-free gains and potential Capital Gains Tax deferral relief if you have sold other investments in the correct time period. Common examples include the Enterprise Investment Scheme (EIS) and Venture Capital Trusts (VCT). With the EIS, you can invest up to £1,000,000 (with 30% income tax relief) and for VCTs it's £200,000 (with 30% income tax relief). All investments should be chosen in line with your desired risk profile, timescales for investing and wider financial-planning goals.

Regular reviews are key when it comes to effective financial planning because personal circumstances and market conditions can change quickly. The tax-year end is an ideal time to access the knowledge of our expert advisers - call us today for tailored advice that will make the most of your money and ensure you are putting all the appropriate measures in place to protect yourself, your family and your financial future.

Disclaimer:

Information supplied within this piece is based upon our understanding of current UK law and HM Revenue and Customs (HMRC) practice. Tax law and HMRC practice may change from time to time.

The value of any tax relief will depend on the individual circumstances of the investor. The Financial Conduct Authority does not regulate tax advice.

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