DavisGrant

CHARTERED CERTIFIED ACCOUNTANTS

Tax Planning Checklist 2020/21

Year-end tax planning checklist

With the current tax year having begun on 6 April 2020, the clock is ticking and it is important to utilise all the tax reliefs and allowances available before 5 April 2021 in order to minimise your liabilities.

That is why the team at Davis Grant has compiled the following checklist of the key investment and tax planning ideas that you should be considering.

We hope that you find this checklist useful, but please bear in mind that this only provides a summary of the options you should be considering and not all options will be suitable for everyone. Therefore, for more information on any of the ideas outlined or for detailed advice tailored to your specific circumstances, please contact us.

Tax planning

Business Tax	Yes	No
Dividend taxation: Have you utilised the zero per cent Dividend Tax Band of £2,000?	☐	☐
Salaries: Consider payment of salaries to owner managers at tax efficient levels following the reduction of the Dividend Tax Band.	☐	☐
Corporation tax: Currently 19 per cent, this was set to reduce to 17 per cent from April 2020 but will now remain the same. The changes to dividend taxation and corporation tax rates mean you may wish to take advice to check how this impacts on you and your business.	☐	☐
Capital Gains: Have you used your annual exemption for 2020-21 of £12,300?	☐	☐
Business Asset Disposal Relief: Previously known as Entrepreneur's Relief, the lifetime limit for qualifying gains was reduced at the 2020 Budget from £10 million to £1 million.	☐	☐
Accounting dates: Have you considered changing your accounting dates, and taking advantage of the tax benefits of overlap relief or incorporation?	☐	☐

Tax planning

Business Tax (continued)

	Yes	No
Incorporation: If you are trading as a sole trader, partnership or Limited Liability Partnership should you consider incorporation to a Limited Company as a more tax efficient business structure?	☐	☐
Capital Allowances: Have you purchased any required items before your business year end to ensure these allowances are available a year earlier? The Annual Investment Allowance will now remain at £1 million until 1 January 2022, instead of falling to £200,000 in 2021 as previously planned.	☐	☐
Research & Development tax credits: Have you claimed for all your eligible R&D projects to take advantage of the significant benefits available? HMRC will allow an extra 130 per cent of identified costs to be written off against taxable profits – this equates to 33p in every pound spent on projects that have led to the creation new products, processes or services or modifying an existing product, process or service. Claims can even be made against innovations that resulted in a loss.	☐	☐

Tax planning

Personal Tax	Yes	No
Inter-spouse transfers: Have you maximised capital gains and income tax rates and allowances through these exempt transfers? For individuals whose annual income is between £100,001 and £125,000 this is an ideal way of reducing your tax liabilities.	☐	☐
Exchange your salary for benefits: Consider exchanging part of your salary for payments into an approved share scheme or additional pension contributions, to take you below the £100,000 threshold.	☐	☐
Dividends and bonuses: Have you considered paying these early, so that they fall into the current tax year? Equally, for individuals who receive relatively low levels of taxable dividend income, it might be worth deferring dividends.	☐	☐
Inheritance tax: Have you used your maximum gift allowances?	☐	☐

Tax planning

	Yes	No
Inheritance Tax Planning		
Switch your assets: Inheritance Tax (IHT) must be paid on the value of any estate above £325,000. However certain assets including business and agricultural as well as shares in private trading companies may qualify for 100 per cent relief from IHT. The Resident Nil Rate Band (RNRB) was introduced in 2017 and applies to a residence passed, on death, to a direct descendant. It is being introduced in stages – £150,000 initially, rising to £175,000 (2020). From April 2020 there is a nil rate band of £325,000 plus RNRB of £175,000, – which, in total, provides an IHT allowance of £500,000 per person, so a married couple could have a £1 million allowance. Estates worth over £2 million will start to lose the RNRB, with it being withdrawn at a rate of £1 for every £2 over £2 million.	☐	☐
Charitable and personal gifts: If you leave at least 10 per cent of your net estate to charity a reduced rate of 36 per cent rather than 40 per cent applies and could save your family money. Gifts to a spouse can be made now to use up his or her nil rate band and could help you to reduce the value of the part of your estate above the £325,000 band. Other gifts may be free of IHT but it is important to seek advice first.	☐	☐
Passing on your pension: Following the change to pension rules in 2015, if you have not already done so, you should revisit your current plans and update your Will to ensure that your family receives the full benefit of any remaining pension fund when you die.	☐	☐
Trust funds: There are many ways that a formal trust fund can protect and maximise your family's future assets. There have been a number of changes to the treatment of trust funds recently which are complex and could affect some people. If you are considering setting up a Trust, seek advice.	☐	☐

Pensions

	Yes	No
Protecting a large pension: The Lifetime Allowance (LTA) reduced from £1.5 million to £1.25 million in 2014. The LTA has since been reduced further and was £1,055,000 for 2019/20, rising to £1,073,100 for 2020/21. If this is likely to affect you, we urge you to take advice as there are ways of protecting your funds.	☐	☐
Stakeholder pensions: All UK residents including children can make annual net contributions of £2,880 per year (£3,600 gross) regardless of whether they have any earnings. There are ways of using these payments to keep below the £50,000 income threshold to retain child benefit. It is also a very beneficial way of giving your children a helping hand for the future. If pension investments were to grow at a rate of nine per cent every year, investing £2,880 a year for your 10 year old child could result in a maximum pension pot of £1 million by the time he or she is 68 years old.	☐	☐
Pension drawdown: If you are 55 or over, you may be able to start drawing down pension benefits now from a personal pension such as a SIPP, even if you are still working. You may take up to 25 per cent tax-free with the rest taxed at your marginal rate. Anyone who is entitled to flexible drawdown and who is considering retiring overseas should seek advice on potential additional tax savings available to them.	☐	☐
Annual pension allowance: Have you used your full pension allowance? You can invest up to £40,000 a year into a pension tax-free. This amount can be carried over three years, allowing you to use unused allowance to top up your pension.	☐	☐

Pensions

	Yes	No
Carry forward benefits: Have you claimed your higher or additional tax relief? Have you used the carry forward rules in order to benefit from any unused allowance from the previous three tax years?	☐	☐
Make tax-free pension contributions: Pension contributions made to employees by an employer are tax efficient. If you own the company you can claim a business tax reduction. Where employees exchange some of their salary in return for a larger pension contribution made by the employer both parties can save on national insurance contributions.	☐	☐
Retirement planning: Have you ensured that you have a suitable plan in place to meet your needs in retirement? There are many tax reliefs and investment opportunities available that can increase your income and savings in retirement.	☐	☐

Investment ideas

	Yes	No
ISAs: Have you used your maximum annual investment of £20,000?	☐	☐
Junior ISAs or Child Trust Fund: Has £9,000 been invested for any child under the age of 18?	☐	☐
Help-to-buy ISAs: This ISA was available to first time buyers over the age of 16. Savings of up to £1,200 in the first month and thereafter a maximum of £200 per month attract a 25 per cent tax-free bonus from the Government, providing £3,000 cashback on a maximum saving of £12,000. New accounts were closed from 30 November 2019, but those with existing accounts can still save but must make use of savings by 30 November 2029.	☐	☐
Lifetimes ISAs: Introduced in April 2017, you must be aged between 18 and 40 to open a Lifetime ISA. The Government will provide a bonus of 25 per cent on the money you invest up to a maximum of £1,000 per year. You can save up to £4,000 a year, and can continue to pay into it until you reach 50.	☐	☐
Tidying-up your investments: Have you realised investments and bond gains or closed deposit accounts where funds may be attracting negligible rates of interest?	☐	☐
Take advantage of share schemes: If your company offers a share scheme, such as a share incentive plan (SIP) or a sharesave (SAYE) there are usually price discounts and tax incentives for taking part.	☐	☐
EIS investment: Have you considered these investments, which offer income tax relief of 30 per cent, as well as possible capital gains tax deferral?	☐	☐

Investment ideas

	Yes	No
Venture Capital Trust investment: Have you considered VCTs, which provide 'front end' income tax relief on subscriptions of up to £200,000, as well as tax-free dividends and capital gains tax reliefs?		
Seed Enterprise Investment Schemes: Although investing in an SEIS can carry more risk than an EIS or VCT, there is substantial tax relief available to offset a large part of potential losses.		
Community investments: Share purchases or loans to a Community Development Finance Institution (CDFI) qualify for tax relief. Over a period of five years relief is provided at a five per cent, providing 25 per cent relief in total.		
Social Enterprise investments: Investing in certain 'social impact' organisations can attract social investment tax relief (SITR) of 30 per cent. The limits have been changed this year. The amount of qualifying investment a qualifying social enterprise can raise has, in most cases, increased to a maximum of £1.5 million over its lifetime.		
Life Assurance bonds: Insurance backed bonds allow five per cent of the original capital to be withdrawn each year tax-free. Although you need to consider commissions, management costs and basic rate tax charges within the bond, the five per cent tax-free withdrawal is still attractive to anyone whose level of income means they will lose their personal allowance and pay 45 per cent income tax.		
Offshore bonds: As with UK bonds, five per cent of the original capital invested can be withdrawn each year tax-free. Although they are taxed in full when disposed of they provide a useful way of deferring tax.		

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