



*helping you work*

## **Personal Tax Planning 2020/21**

Some of the ideas mentioned here and in the checklists may provide you with tax saving opportunities if implemented before 5 April 2021. This year, more than at any previous time, we need to take advantage of savings as the COVID virus continues to affect the UK economy.

Actions to take:

- Scan the checklists;
- Tick those items that are relevant to you; and
- Call so that we can discuss what needs to be done to secure any tax saving benefits before 5 April 2021.

### **DO NOT ACT WITHOUT CALLING FOR ADVICE**

These checklists are not advice – they have been drawn up to provide an agenda for a deeper discussion of the issues raised. Do not act or refrain from acting on the matters illustrated without first calling to confirm your best course of action.

### **Income Tax – avoiding higher rates of tax**

You will no doubt be aware that the 3 rates of income tax are 20%, 40% and 45%. What you may not know is that your personal tax circumstances can boost these rates. For example, if your taxable income exceeds £100,000 you could lose your personal tax allowance and for 2021/21 this will increase the marginal rate of tax applied to earnings between £100,000 and £125,000 to 60%.

### **Capital Gains Tax (CGT)**

CGT is calculated at fixed rates on non-residential property disposals (10% or 20%) but CGT payable on the sale of a second home will be either 18% or 28%.

There are certain assets that you can sell without paying CGT. They include:

- The sale of any chargeable asset, like shares or a second home, if the overall gains in the current tax year do not exceed £12,300.
- Any gains on assets you gift to your spouse, as long as you were not separated and not living together during the tax year.
- Qualifying gifts to a charity.
- Gains from ISAs or PEPs.
- Gains on disposal of certain UK government gilts and Premium Bonds.
- Betting, lottery or pools winnings.
- In most instances, the disposal of your main home.
- The disposal of your own car unless you use it for business purposes.
- Any personal possession (jewellery, paintings, antiques and other collectibles) unless sold for more than £6,000.

## *CGT rates for 2020/21*

### **If you pay income tax at basic rates (20%) you will pay CGT at:**

- 18% on gains from sale of chargeable residential property; and
- 10% on gains from sale of other property.

### **If you pay income tax at higher rates (40% or above) you will pay CGT at:**

- 28% on gains from sale of chargeable residential property; and
- 20% on gains from sale of other property.

To qualify for the lower rates, your taxable income plus the chargeable gain must be within the basic rate income tax band. If the gain is part under and part over this limit, you will pay CGT at the lower and higher rates.

## **Inheritance Tax (IHT)**

IHT is payable when a person dies, and their estate exceeds certain limits. It is also potentially payable on gifts made by an individual during their lifetime if the gift was made in the 7 year period prior to their death.

Small lifetime gifts can be exempt. These include:

- Gifts made out of your disposable income, for example Christmas or birthday presents.
- Other gifts up to £3,000 per tax year are exempt from IHT. An unused allowance can be carried forward for just 1 year.
- Wedding or civil ceremony gifts of up to £1,000 per person (£2,500 for a grandchild or great grandchild, £5,000 for a child).
- Payments to help with another person's living costs, for example an elderly relative or a child under 18.
- Gifts to charities and political parties.

Larger lifetime gifts are potentially chargeable to IHT, which is payable at 40% on gifts you make within 3 years of your death. Between 3 to 7 years of your death are tapered.

Other situations that will affect your estate's liability to IHT include:

- Any assets left to your spouse are free of IHT.
- If the value of your estate is below £325,000, no IHT is payable.
- If your previously deceased spouse did not use their £325,000 threshold, you can add this to your exempt threshold, meaning that in these circumstances your estate would pay no IHT if valued at less than £650,000.
- A new nil-rate band is available from April 2017. The main residence nil-rate band applies when a residence is passed on death to a direct descendant. This additional relief makes it easier for families to pass on the family home without a tax charge. The relief amounts to £175,000 for 2020/21.

If you would like to review your inheritance tax liability, we can produce a 'Family Summary' which estimates what your IHT position would be. If you would like further information on this, please let me know.

## **Act Now!**

Many of these suggestions will no longer be effective unless you act before 5 April 2021.

If you think that any of the items on the checklists relate to you, please get in touch to discuss your options.