Preparing for your year end planning

As 5th April creeps closer, it's a good time to get ahead with your year-end tax planning.

The Autumn Budget has been abandoned for a second successive year, to be rescheduled for spring. Once again, that means it's best to complete year-end tax planning before the spring Budget day. Such a precaution is all the more important in 2020/21 as several areas of tax have come under scrutiny following various Treasury-commissioned reviews.

Broad tax increases are unlikely while economic conditions are still fragile, but more targeted tax-raising measures are a distinct possibility. With that warning in mind, your year-end planning checklist should include the following.

Income planning

Your income may have dropped this tax year because of reduced earnings during the Covid-19 pandemic, falling dividends or minuscule interest rates. So it might be worth trying to estimate your income for the full tax year to 5 April 2021, because it could point to tax-saving opportunities.

For example, if your income is above £50,000 and you have or live with someone with children, you could be subject to the High Income Child Benefit Charge. Bringing your taxable income down – by making a pension contribution or charitable gift for example – could reduce or even eliminate that charge. There are similar opportunities above the £100,000 threshold when the phasing out of the personal allowance begins.

Pensions

Check if you have any unused pension annual allowance from 2017/18, when the maximum annual allowance (before tapering) was £40,000. You have until the end of the current tax year to mop up this past allowance or lose it completely. However, it can only be used once you have exhausted your 2020/21 annual allowance, which may be higher than in previous years because of changes introduced in the March 2020 Budget.

You can go on to pick up more unused relief from the years after 2017/18, although you can also only do this if you have used up your current year's allowance. Unsurprisingly, the calculations can quickly become complex, so do contact us as soon as possible if maximising today's pension tax relief is important to you.

Capital gains tax

Capital gains tax (CGT) could soon be subject to some changes. In July the Chancellor asked the Office of Tax Simplification (OTS) to undertake a broad review of CGT. The first report from the OTS emerged in November and is likely to feed into Budget proposals to reform the tax.

One OTS proposal that is popular with think tanks and could appeal to the Chancellor is a reversion to the regime which existed until 2008. Back then, CGT was levied at full income tax rates, which would now mean rates of up to 45% rather than the current maximum of 20% (28% for non-exempt residential property and carried interest). The OTS has also followed the idea of some think tanks in suggesting the CGT annual exempt amount should be reduced from the current £12,300 to a nominal figure.

If you have capital gains in your portfolio, you should consider realising gains up to your available annual exempt amount before Budget day.

Inheritance tax

A separate OTS simplification review last year considered inheritance tax (IHT). It was not in the March 2020 Budget, but few experts think it has been left on a shelf gathering dust. Some reliefs and exemptions could be under threat, such as those that apply to business assets and large regular gifts out of income. Ahead of the Budget you should think about using your £3,000 annual exemption; making individual gifts of up to £250; making regular gifts out of disposable income and whether to make any larger lifetime gifts.

The Financial Conduct Authority does not regulate tax advice, and levels and bases of taxation and tax reliefs are subject to change and their value depends on individual circumstances. Tax laws can change.