

## Year-end tax planning for individuals

### (Lecture P1184 - 15.27 minutes)

With the end of the tax year fast approaching, now is a good time to check that clients have taken advantage of all of the reliefs and allowances that are available to them.

#### *Annual allowance for pensions*

The current annual allowance for pension contributions is £40,000, higher for those who have any unused relief from the previous three tax years.

Unfortunately, high earners have their annual allowance restricted by £1 for every £2 that their total income, including employer's pension contributions, exceeds the £150,000 threshold. This can reduce the allowance to a minimum of £10,000.

Now is a good time to check to see if your clients have any available funds, and available allowance, so that they can invest in their pension fund before the end of the tax and receive tax relief at their marginal rate of income tax.

#### *ISA planning*

Individuals are able to invest up to £20,000 per annum into an ISA, where income generated and any gains made on closing the account are income and capital gains tax-free.

Unfortunately, any unused allowance in a tax year cannot be carried forward so make sure that clients do not miss out on investing funds in appropriate ISAs before the year.

For the under 40s, up to £4,000 of their ISA allowance can be invested in a lifetime ISA, receiving a 25% bonus on the amount invested. Clients must be careful to only use these funds for allowable purposes; failure to do so will mean that the 25% bonus will be withdrawn. The money can be used towards the purchase of a first home, in the event of a terminal illness or by waiting until they are 60 and then withdrawing the money invested.

#### *Personal savings and dividends allowance*

The personal savings allowance is an income tax free allowance on interest earned, with the amount of the allowance varying depending on the taxpayer's marginal rate of tax. The tax-free amount is:

- £1,000 for basic rate taxpayers; and
- £500 for higher rate taxpayers.

The allowance is not available to additional rate taxpayers.

All taxpayers, irrespective of their marginal rate of tax, receive the first £2,000 of dividend income tax free. Any excess dividends are then taxed at the taxpayer's appropriate marginal rate being 7.5% for dividends falling into the basic rate band, 32.5% in the higher rate band and 38.1% for additional rate taxpayers.

Where individuals are not currently benefitting from these allowances, consideration should be given to see if rearranging their tax affairs for the following year might put them in a better position, particularly for married couples and civil partners who may not be maximising the use of their total allowances.

### *IHT planning*

Individuals should consider whether they can make use of any IHT gift exemptions before the year-end, but it's also worth considering whether they may be able to benefit from these exemptions going forward.

**Annual exemption:** The first £3,000 of gifts in a tax year are covered by this exemption and where not used, the allowance can be carried forward for one tax year, enabling £6,000 to avoid IHT the following year.

**Wedding gifts:** Where clients are considering making gifts in consideration of marriage, certain amounts may be gifted tax-free: £5,000 to a child, £2,500 to a grandchild and £1,000 to anyone else.

**Gifts out of income:** Make sure that clients are aware that recurring gifts out of their income, rather than wealth, can be gifted annually tax free. So regular birthday and Christmas gifts should not be a problem.

**One-off gifts:** Up to £250 per person may be gifted each year to individuals provided that no other IHT exemption applies to the same gift.

### *Tax efficient investments*

Higher rate taxpayers, who are not risk-averse, could consider investing in EIS, SEIS and VCT investments. Provided that the relevant conditions are satisfied, the individuals will benefit from income tax relief on investment and also avoid CGT on the eventual sale of the investments.

### *CGT planning*

Where an individual is considering disposing of capital assets, it might be worth bringing that sale forward to ensure that they use their £12,000 annual exemption - remember, any unused annual exemption is wasted as it cannot be carried forward to a future year.

Remember gifts of assets between spouses and civil partners are CGT free and owning the assets jointly, would mean that on disposal, the couple would benefit from two annual exemptions.

Where a sale is planned, is it possible to spread it over two tax years to benefit from two years' worth of annual exemption?

### *Transferring the personal allowance*

Where a taxpayer is married or in a civil partnership, 10% of the £12,500 personal allowance can be transferred if not being used. It can't be transferred to a higher rate taxpayer and so only applies to individuals in the basic rate band.

*Created from the seminar by Alexandra Durrant*