Forbes Dawson
THE TAX SPECIALISTS

Private Client Year-end Tax Planning 5 April 2019

Ideas to reduce your tax bill

The period leading up to 5 April is one of the best times to review your finances to reduce the taxman's take.

Here is our summary of the important year-end tax tips that should be considered prior to 5 April 2019. This will allow you to structure your affairs for the new tax year in the most efficient way and to make use of allowances still available in the 2018/19 tax year.

Tax advice should be sought prior to implementing any of the suggestions below.

Summary

- ✓ Take advantage of tax reliefs and allowances to reduce your rates of tax.
- ✓ Make use of ISA allowances to save tax-free (currently £20,000).
- ✓ Do not sell Investors' Relief-eligible shares before 6 April 2019 if possible.
- ✓ Ensure pension contributions (with carried forward amounts in mind) are paid within annual allowance.

Income Tax

Personal Savings Allowance

The allowance enables basic rate taxpayers to receive the first £1,000 of interest tax-free. Higher rate taxpayers will be able to earn up to £500 tax-free.

Any business owners may consider charging interest on loans made to their companies to utilise this allowance. Alternatively, look to balance investment portfolios between spouses to utilise this relief next year.

Dividend Allowance

The tax-free allowance on dividend income for the current tax year is £2,000. If the timing of dividends can be controlled, ensure that at least a £2,000 dividend has been declared per shareholder before 6 April 2019.

Owner-managed private companies should review their shareholder income structure, and married couples should consider reorganising their shareholdings to utilise both spouses' allowances. The dividend allowance for 2019/20 remains the same.

It is worth noting the effect of the personal allowance and the basic rate band means that it possible to receive up to £50,000 of income without paying higher rates of tax

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from 6 April 2019. However, with the increase in limits for National Insurance (taxable at the 12% rate) part of this benefit will be lost.

Tax-Efficient Investments

ISAs

Make use of the annual allowance (£20,000) to invest in an ISA before the year-end. It is not possible to carry forward your allowance.

There are now many ISAs to choose from depending on your personal needs, including the Lifetime ISA and Help-to-Buy ISA (though note that the latter will become unavailable after 30 November 2019). The ISA limit for 2019/20 is remaining the same.

SEIS/EIS/VCT

Investments made into qualifying companies may qualify for income tax relief and the shares may be exempt from capital gains tax on disposal.

SEIS investment enables a tax saving of 50% of the amount invested (up to £100,000 per annum). Additionally, 50% relief (not deferral) is given against other capital gains made in the year. The total gain on the sale of the SEIS shares is exempt if held for three years.

EIS and VCT investments attract income tax relief at 30%. The disposals of these shares are exempt from capital gains tax on sale when held for at least three years and five years respectively.

Both SEIS and EIS reliefs can be carried back to 2017/18, which could give a cash flow advantage.

Capital Gains Tax

Review your investment portfolio and look to realise gains to utilise your capital gains tax exemption of £11,700. You cannot carry forward this exemption, so make use of it to reduce your future liabilities. This is increasing to £12,000 on 6 April 2019.

Married couples can take advantage of two capital gains tax exemptions. Consider transferring assets between spouses to fully utilise the relief.

Consider selling assets standing at a loss to offset against any capital gains realised in the year.

Investors' Relief (IR)

IR is a relief which results in a 10% capital gains tax rate on qualifying gains (up to a lifetime limit of £10m). These are gains on the disposal of shares subscribed for in unlisted trading companies on or after 17 March 2016.

The shares have to be held for at least three years following 6 April 2016, which means the first round of shares receiving relief will qualify after 6 April 2019.

It is important that investors who have subscribed for potentially IR-eligible shares do not sell the shares before 6 April 2019, if this is commercially sensible.

Inheritance Tax

Remember you can make gifts which will fall out of charge to inheritance tax if you survive for seven years.

Also consider establishing a pattern of making regular gifts out of income; such gifts are outside the inheritance tax net and are a simple way of reducing your estate.

Residential Property Letting

Currently only 50% of finance costs can be offset against rental income in full. The remaining 50% is only relievable at basic rate of 20%. After 6 April 2019, only 25% of finance costs are relievable at your marginal rate and the remaining 75% relievable at basic rate.

It is therefore worth reviewing your assets and borrowings if you have not already done so. Are you able to restructure borrowings against commercial properties?

The interest restrictions also do not apply against Furnished Holiday Lettings but be aware that there are strict criteria for your residential property to qualify.

Pension Contributions

The restriction to contributions made by high earners (net income more than £110,000) continues to apply. The standard annual allowance of £40,000 is reduced by £1 for every additional £2 of an individual's 'adjusted income' (including pension contributions made by the employer) over £150,000, subject to a minimum allowance of £10,000.

Unused allowances brought forward from the preceding three tax years can be used in 2018/19, although the current year's allowances must be used first.

Also consider making pension contributions for children and grandchildren of £2,880 net (£3,600 gross).

Personal pension contributions and charitable donations will 'reduce your income' for the purposes of the Child Benefit clawback test, so consider making these if your income is around the £60,000 mark to avoid the clawback.

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